# NELSON COUNTY SERVICE AUTHORITY

# FINANCIAL REPORT

# YEAR ENDED JUNE 30, 2020

# NELSON COUNTY SERVICE AUTHORITY

(A governmental organization under the

Water and Sewer Authorities Act, Chapter 51,

Title 15.2 of the Code of Virginia, as amended)

## MEMBERS

David S. Hight, Chairman

Gary L. Sherwood, Vice-Chairman

Ernie Q. Reed

Jesse N. Rutherford

Justin Shimp

## OFFICIALS

George T. Miller, Jr., Executive Director

Jennifer Fitzgerald, Secretary / Treasurer

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ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants

CPAs | CONSULTANTS

## Independent Auditors' Report

**BOARD OF DIRECTORS**
**NELSON COUNTY SERVICE AUTHORITY**
**LOVINGSTON, VIRGINIA**

### Report on the Financial Statements

We have audited the accompanying financial statements of the Nelson County Service Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nelson County Service Authority, as of June 30, 2020, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 3-6 and on pages 38-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

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

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

**Report on Summarized Comparative Information**

We have previously audited the Nelson County Service Authority's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020, on our consideration of the Nelson County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Nelson County Service Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nelson County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 27, 2020

This section presents Management's Discussion and Analysis of Nelson County Service Authority's (Authority) financial condition and activities for the year ended June 30, 2020. This information should be read in conjunction with the financial statements.

## Financial Highlights

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

- The Authority treated 127 million gallons of raw water representing a 10% increase from fiscal year 2019. In fiscal year 2019, there was a 4% decrease from 2018.

- The Authority treated 125 million gallons of wastewater representing a 14% decrease from fiscal year 2019. In fiscal year 2019, the Authority treated 145 million gallons, a 27% increase from 2018.

- Total assets at year-end were $15.9 million. Total assets and deferred outflows of resources exceeded liabilities and deferred inflows in the amount of $10.0 million (i.e. net position) versus $9.0 million at June 30, 2019. Total assets decreased from fiscal year end 2019 to 2020 in the amount of $319,560. Total net position increased from fiscal year-end 2019 to 2020 in the amount of $997,559.

- Water and sewage charges of $3,890,910 increased from fiscal year 2019 by approximately $350,000. Water and Sewage disposal charges for fiscal year 2020 were less than budget projections by 9.5%.

- Payments from Nelson County of $290,609 represented their contribution toward the fire protection costs incurred by the Authority. The payments were $318,812 in fiscal year 2019.

- Operating revenues excluding the County's payment for the year were $4,019,289, compared to $3,689,778 for fiscal year 2019, an 8.93% increase.

- Operating expenses before depreciation were $2,942,305, compared to $2,665,219 for fiscal year 2019 and $2,825,996 for fiscal year 2018.

## Required Financial Statements

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

The statement of net position includes all of the Authority's assets, liabilities, and deferred inflows/outflows of resources and provides information about the nature and amount of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its water and sewage disposal rates and other fees. The Authority's rates are based on projected operating costs and are adjusted as needed to meet operating expenses and the required debt ratio.

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

## Required Financial Statements: (Continued)

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

## Summary of Organization and Business

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

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

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

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

## Financial Analysis

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

| | Net Position | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Assets:** | | | |
| Current and other assets | $ 3,574,298 | $ 3,350,821 | $ 2,843,527 |
| Capital assets | 12,361,862 | 12,904,899 | 13,585,902 |
| Total assets | $ 15,936,160 | $ 16,255,720 | $ 16,429,429 |
| **Deferred outflows of resources** | $ 187,702 | $ 92,264 | $ 84,128 |
| **Liabilities:** | | | |
| Current liabilities | $ 480,666 | $ 448,845 | $ 536,956 |
| Noncurrent liabilities | 5,435,208 | 6,824,990 | 7,155,467 |
| Total liabilities | $ 5,915,874 | $ 7,273,835 | $ 7,692,423 |
| **Deferred inflows of resources** | $ 250,690 | $ 114,410 | $ 172,126 |
| **Net position:** | | | |
| Net investment in capital assets | $ 6,953,913 | $ 6,034,351 | $ 6,358,658 |
| Restricted | 357,892 | 353,078 | 333,380 |
| Unrestricted | 2,645,493 | 2,572,310 | 1,956,970 |
| Total net position | $ 9,957,298 | $ 8,959,739 | $ 8,649,008 |

**Financial Analysis: (Continued)**

| | Change in Net Position | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Revenues: | | | |
| Operating revenues | $ 4,019,289 | $ 3,689,778 | $ 3,750,213 |
| Fire protection-Nelson County | 290,609 | 318,812 | 318,812 |
| Other revenue | 9,672 | 7,521 | 5,663 |
| Total revenues | $ 4,319,570 | $ 4,016,111 | $ 4,074,688 |
| Expenses: | | | |
| Operating expenses | $ 2,942,305 | $ 2,665,219 | $ 2,825,956 |
| Depreciation expenses | 803,090 | 816,921 | 818,972 |
| Interest expense | 219,450 | 235,730 | 314,708 |
| Total expenses | $ 3,964,845 | $ 3,717,870 | $ 3,959,636 |
| Increase in net position before capital contributions | $ 354,725 | $ 298,241 | $ 115,052 |
| Capital Contributions | 642,834 | 12,490 | 63,486 |
| Increase in net position | $ 997,559 | $ 310,731 | $ 178,538 |
| Net position—July 1, restated as of July 1, 2017 | 8,959,739 | 8,649,008 | 8,470,470 |
| Net position—June 30 | $ 9,957,298 | $ 8,959,739 | $ 8,649,008 |

**General Trends and Significant Events**

| Other Selected Information | | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Employees at year-end | 20 | 20 | 20 |
| Raw water treated (millions of gallons) | 126.77 | 115.33 | 119.98 |
| Average daily water consumption (millions of gallons) | 0.35 | 0.32 | 0.33 |
| Wastewater treated (millions of gallons) | 125.01 | 145.33 | 114.05 |
| Average daily sewage flow (millions of gallons) | 0.34 | 0.40 | 0.31 |
| Number water connections | 2,935 | 2,935 | 2,932 |
| Number sewer connections | 2,547 | 2,547 | 2,545 |
| Rates for normal water customers: | | | |
| Minimum charges for 0-4,000 gallons: | | | |
| Lovingston, Schuyler Gladstone | $ 42.00 | $ 38.20 | $ 38.20 |
| Wintergreen | $ 46.00 | $ 41.85 | $ 41.85 |
| Each additional 1,000 gallons | $ 10.50 | $ 10.50 | $ 10.50 |
| Rates for normal sewer customers: | | | |
| Lovingston, Schuyler Gladstone | $ 54.10 | $ 47.05 | $ 47.05 |
| Wintergreen | $ 54.10 | $ 47.05 | $ 47.05 |
| Each additional 1,000 gallons | $ 9.90 | $ 9.90 | $ 9.90 |

## General Trends and Significant Events: (Continued)

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

The number of the Authority's combined water and sewer connections remained consistent in fiscal year 2020.

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

## Financial Condition

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

Total assets decreased $319,560, and net position increased by $997,559 from FY2019.

## Capital Asset and Debt Administration

Capital Assets - The Authority's investment in capital assets as of June 30, 2020 amounts to $12,361,862 (net of accumulated depreciation). Investment in Capital Assets decreased 4.21% during the year. Below is a comparison of the items that make up Capital Assets as of June 30, 2020 with that of June 30, 2019 and 2018. More detailed information about the Authority's capital assets is presented in Note 3 to the financial statements.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Land and improvements | $ 279,551 | $ 279,551 | $ 279,551 |
| Utility system and equipment | 11,610,236 | 12,382,773 | 13,099,515 |
| Construction in Progress | 472,075 | 242,575 | 206,836 |
| Total Capital Assets | $ 12,361,862 | $ 12,904,899 | $ 13,585,902 |

At year-end the Authority had $5.41 million in long-term debt with $197,603 coming due in 2021. More detailed information about the Authority's long-term debt is presented in Note 5 to the financial statements.

## Results of Operations

The Authority's revenues from operations fall into three main categories: 1) Water and Sewage disposal charges to customers in Nelson County which are based upon metered and unmetered water consumption which is billed monthly. 2) Miscellaneous revenue including penalties, Nelson County shared expense reimbursements, and other revenue. 3) Nonoperating revenues including interest, gain on sale of assets and other revenue. Revenues from the three main categories total $4,319,570 for fiscal year 2020. Fiscal year 2019 totaled $4,016,111.

Operating expenses before depreciation were $2.94 million, compared to $2.67 and $2.83 million for fiscal years 2019 and 2018.

## Future

Fiscal year 2020 continued the trend of improved financial performance by the Authority. This improvement is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

## Contacting the Authority's Financial Manager

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

# Financial Statements

**NELSON COUNTY SERVICE AUTHORITY**

Statement of Net Position
At June 30, 2020
(With Comparative Totals for the Prior Year)

| | At June 30, 2020 Water | Sewer | Total | At June 30, 2019 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ - | $ 2,203,001 | $ 2,203,001 | $ 2,092,319 |
| Accounts receivable (net of allowance for uncollectibles) | 246,708 | 254,422 | 501,130 | 458,505 |
| Internal balances | (50,792) | 50,792 | - | - |
| Inventory of materials and supplies, at cost | 29,211 | 106,828 | 136,039 | 143,963 |
| Prepaid expenses | 6,237 | 6,237 | 12,474 | 12,236 |
| Total current assets | $ 231,364 | $ 2,621,280 | $ 2,852,644 | $ 2,707,023 |
| Noncurrent Assets: | | | | |
| Restricted Assets: | | | | |
| Cash and cash equivalents | $ 259,320 | $ 98,572 | $ 357,892 | $ 353,078 |
| Other Assets: | | | | |
| Net pension asset | $ 181,881 | $ 181,881 | $ 363,762 | $ 290,720 |
| Capital Assets: | | | | |
| Land and improvements | $ 276,431 | $ 3,120 | $ 279,551 | $ 279,551 |
| Water and sewer systems | 16,173,216 | 10,235,529 | 26,408,745 | 26,378,745 |
| Equipment | 834,523 | 1,534,130 | 2,368,653 | 2,368,100 |
| Accumulated depreciation | (8,796,142) | (8,371,020) | (17,167,162) | (16,364,072) |
| Sub-total | $ 8,488,028 | $ 3,401,759 | $ 11,889,787 | $ 12,662,324 |
| Construction work in progress | 31,017 | 441,058 | 472,075 | 242,575 |
| Net capital assets | $ 8,519,045 | $ 3,842,817 | $ 12,361,862 | $ 12,904,899 |
| Total noncurrent assets | $ 8,960,246 | $ 4,123,270 | $ 13,083,516 | $ 13,548,697 |
| Total assets | $ 9,191,610 | $ 6,744,550 | $ 15,936,160 | $ 16,255,720 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension related items | $ 64,848 | $ 64,848 | $ 129,696 | $ 56,444 |
| OPEB related items | 29,003 | 29,003 | 58,006 | 35,820 |
| Total deferred outflows of resources | $ 93,851 | $ 93,851 | $ 187,702 | $ 92,264 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ 118,634 | $ 29,195 | $ 147,829 | $ 61,414 |
| Compensated absences | 34,737 | 37,257 | 71,994 | 62,208 |
| Accrued expenses | 27,883 | 23,128 | 51,011 | 40,694 |
| Accrued interest payable | 2,699 | 130 | 2,829 | 4,367 |
| Unearned revenue | 9,400 | - | 9,400 | 14,300 |
| Revenue bonds-current portion | 188,881 | 8,722 | 197,603 | 265,862 |
| Total current liabilities | $ 382,234 | $ 98,432 | $ 480,666 | $ 448,845 |
| Noncurrent Liabilities: | | | | |
| Revenue bonds-net of current portion | $ 4,910,938 | $ 299,408 | $ 5,210,346 | $ 6,604,686 |
| Net OPEB liabilities | 112,431 | 112,431 | 224,862 | 220,304 |
| Total noncurrent liabilities | $ 5,023,369 | $ 411,839 | $ 5,435,208 | $ 6,824,990 |
| Total liabilities | $ 5,405,603 | $ 510,271 | $ 5,915,874 | $ 7,273,835 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension related items | $ 107,703 | $ 107,703 | $ 215,406 | $ 107,410 |
| OPEB related items | 17,642 | 17,642 | 35,284 | 7,000 |
| Total deferred inflows of resources | $ 125,345 | $ 125,345 | $ 250,690 | $ 114,410 |
| NET POSITION | | | | |
| Net investment in capital assets | $ 3,419,226 | $ 3,534,687 | $ 6,953,913 | $ 6,034,351 |
| Restricted for debt service | 259,320 | 98,572 | 357,892 | 353,078 |
| Unrestricted | 75,967 | 2,569,526 | 2,645,493 | 2,572,310 |
| Total net position | $ 3,754,513 | $ 6,202,785 | $ 9,957,298 | $ 8,959,739 |

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

**NELSON COUNTY SERVICE AUTHORITY**

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020
(With Comparative Totals for the Prior Year)

| | Year Ended June 30, 2020 | | | Year Ended June 30, 2019 |
|---|---|---|---|---|
| | Water | Sewer | Total | |
| Operating Revenues: | | | | |
| Water and sewer charges | $ 1,838,480 | $ 2,052,430 | $ 3,890,910 | $ 3,538,927 |
| Availability fees | 15,293 | 21,495 | 36,788 | 37,829 |
| Fire protection fees-Nelson County | 290,609 | - | 290,609 | 318,812 |
| Connection fees | 8,000 | - | 8,000 | 26,000 |
| Other fees | 17,620 | 65,971 | 83,591 | 87,022 |
| Total operating revenues | $ 2,170,002 | $ 2,139,896 | $ 4,309,898 | $ 4,008,590 |
| Operating Expenses: | | | | |
| Personnel | $ 566,046 | $ 462,793 | $ 1,028,839 | $ 994,297 |
| Depreciation | 464,645 | 338,445 | 803,090 | 816,921 |
| Maintenance | 157,345 | 134,295 | 291,640 | 210,798 |
| Fringe benefits | 129,084 | 119,024 | 248,108 | 224,190 |
| Operations | 160,465 | 195,168 | 355,633 | 241,624 |
| Power pumping | 68,138 | 139,167 | 207,305 | 216,224 |
| Raw water | 418,064 | - | 418,064 | 334,281 |
| General and administrative | 70,877 | 48,662 | 119,539 | 102,369 |
| Insurance | 23,400 | 23,401 | 46,801 | 46,278 |
| Contractual services | 99,301 | 35,025 | 134,326 | 156,240 |
| Grinder pump parts | - | 88,737 | 88,737 | 135,281 |
| Uniforms | 1,623 | 1,623 | 3,246 | 2,160 |
| Small tools | 37 | 30 | 67 | 1,477 |
| Total operating expenses | $ 2,159,025 | $ 1,586,370 | $ 3,745,395 | $ 3,482,140 |
| Operating income (loss) | $ 10,977 | $ 553,526 | $ 564,503 | $ 526,450 |
| Nonoperating Revenues (Expenses): | | | | |
| Interest income | $ 8,594 | $ 1,078 | $ 9,672 | $ 7,381 |
| Gain (loss) on sale of assets | - | - | - | 140 |
| Interest expense | (177,106) | (42,344) | (219,450) | (235,730) |
| Total nonoperating revenues (expenses) | $ (168,512) | $ (41,266) | $ (209,778) | $ (228,209) |
| Income (loss) before contributions and grants | $ (157,535) | $ 512,260 | $ 354,725 | $ 298,241 |
| Capital contributions and construction grants | 6,934 | 635,900 | 642,834 | 12,490 |
| Change in net position | $ (150,601) | $ 1,148,160 | $ 997,559 | $ 310,731 |
| Net position, beginning of year | 3,905,114 | 5,054,625 | 8,959,739 | 8,649,008 |
| Net position, end of year | $ 3,754,513 | $ 6,202,785 | $ 9,957,298 | $ 8,959,739 |

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

**NELSON COUNTY SERVICE AUTHORITY**

Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for the Prior Year)

| | Year Ended June 30, 2020 | | | Year Ended June 30, 2019 |
|---|---|---|---|---|
| | Water | Sewer | Total | |
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | $ 2,153,504 | $ 2,108,869 | $ 4,262,373 | $ 4,052,740 |
| Payments to suppliers | (915,085) | (645,855) | (1,560,940) | (1,552,108) |
| Payments to employees | (704,058) | (590,745) | (1,294,803) | (1,251,218) |
| Net cash provided by (used for) operating activities | $ 534,361 | $ 872,269 | $ 1,406,630 | $ 1,249,414 |
| Noncapital financing activities: | | | | |
| (Increase) decrease in internal balances | $ (134,853) | $ 134,853 | $ - | $ - |
| Cash flows from capital and related financing activities: | | | | |
| Additions to utility plant | $ (49,487) | $ (210,566) | $ (260,053) | $ (135,918) |
| Proceeds from the sale of assets | - | - | - | 140 |
| Principal payments on bonds | (183,418) | (1,279,181) | (1,462,599) | (356,696) |
| Contributions in aid of construction | 6,934 | 635,900 | 642,834 | 12,490 |
| Interest payments | (177,317) | (43,671) | (220,988) | (236,316) |
| Net cash provided by (used for) capital and related financing activities | $ (403,288) | $ (897,518) | $ (1,300,806) | $ (716,300) |
| Cash flows from investing activities: | | | | |
| Interest income | $ 8,594 | $ 1,078 | $ 9,672 | $ 7,381 |
| Increase (decrease) in cash and cash equivalents | $ 4,814 | $ 110,682 | $ 115,496 | $ 540,495 |
| Cash and cash equivalents at beginning of year (including $254,506 and $98,572, respectively reported in restricted accounts) | 254,506 | 2,190,891 | 2,445,397 | 1,904,902 |
| Cash and cash equivalents at end of year (including $259,320 and $98,572, respectively reported in restricted accounts) | $ 259,320 | $ 2,301,573 | $ 2,560,893 | $ 2,445,397 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | $ 10,977 | $ 553,526 | $ 564,503 | $ 526,450 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 464,645 | 338,445 | 803,090 | 816,921 |
| Changes in operating assets, liabilities, and deferred outflows/inflows: | | | | |
| (Increase) decrease in accounts receivable | (11,598) | (31,027) | (42,625) | 44,150 |
| (Increase) decrease in inventories | 2,076 | 5,848 | 7,924 | (8,870) |
| (Increase) decrease in prepaid expenses | (119) | (119) | (238) | (700) |
| (Increase) decrease in net pension asset | (36,521) | (36,521) | (73,042) | (1,379) |
| (Increase) decrease in pension deferred outflows of resources | (36,626) | (36,626) | (73,252) | (1,032) |
| (Increase) decrease in OPEB deferred outflows of resources | (11,093) | (11,093) | (22,186) | (7,104) |
| Increase (decrease) in accounts payable | 77,314 | 9,101 | 86,415 | (78,129) |
| Increase (decrease) in accrued expenses | 4,894 | 5,423 | 10,317 | 1,253 |
| Increase (decrease) in compensated absences | 4,893 | 4,893 | 9,786 | 2,414 |
| Increase (decrease) in unearned revenue | (4,900) | - | (4,900) | (1,700) |
| Increase (decrease) in pension deferred inflows of resources | 53,998 | 53,998 | 107,996 | (56,716) |
| Increase (decrease) in OPEB deferred inflows of resources | 14,142 | 14,142 | 28,284 | (1,000) |
| Increase (decrease) in net OPEB liabilities | 2,279 | 2,279 | 4,558 | 14,856 |
| Net cash provided by (used for) operating activities | $ 534,361 | $ 872,269 | $ 1,406,630 | $ 1,249,414 |

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

## NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Basic Financial Statements - Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

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

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

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

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

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

Revenue – The Authority records water and sewer revenue as billed to its customers principally on a quarterly cycle basis. At year end the Authority accrues a pro-rata portion of the unbilled cycle. The Authority has established an allowance for uncollectible accounts equal to $98,398 at June 30, 2020.

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

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

Compensated Absences – The vacation policy of the Authority provides for the accumulation of up to 66 hours per year of earned vacation leave, depending on years of service. Employees may carry over a maximum of 40 hours vacation leave to the succeeding year. Vacation leave is payable upon termination of employment, limited to the current year accumulation plus leave carried over from the prior year. At June 30, 2020, the accrued liability for accumulated vacation leave amounted to $71,994.

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

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

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.

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

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

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

Other Postemployment Benefits (OPEB) – For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plans and the additions to/deductions from the VRS OPEB Plans' 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.

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

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

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

Reclassification – Certain amounts in previously issued financial statements have been reclassified to conform to current year classifications.

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

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

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

## NOTE 2—DEPOSITS:

**Deposits**

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

The Authority has no formal deposit and investment policy.

## NOTE 3—CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2020 follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Water: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and improvements | $ 276,431 | $ - | $ - | $ 276,431 |
| Construction work in progress | 12,083 | 18,934 | - | 31,017 |
| Total capital assets not being depreciated | $ 288,514 | $ 18,934 | $ - | $ 307,448 |
| Other Capital Assets: | | | | |
| Water and sewer systems | $ 16,173,216 | $ - | $ - | $ 16,173,216 |
| Accumulated depreciation | (7,733,169) | (423,497) | - | (8,156,666) |
| Equipment | 803,970 | 30,553 | - | 834,523 |
| Accumulated depreciation | (598,328) | (41,148) | - | (639,476) |
| Other capital assets, net | $ 8,645,689 | $ (434,092) | $ - | $ 8,211,597 |
| Total Water | $ 8,934,203 | $ (415,158) | $ - | $ 8,519,045 |

## NOTE 3—CAPITAL ASSETS: (CONTINUED)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Sewer: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and improvements | $ 3,120 | $ - | $ - | $ 3,120 |
| Construction work in progress | 230,492 | 210,566 | - | 441,058 |
| Total capital assets not being depreciated | $ 233,612 | $ 210,566 | $ - | $ 444,178 |
| Other Capital Assets: | | | | |
| Water and sewer systems | $ 10,205,529 | $ 30,000 | $ - | $ 10,235,529 |
| Accumulated depreciation | (6,949,389) | (270,117) | - | (7,219,506) |
| Equipment | 1,564,130 | - | 30,000 | 1,534,130 |
| Accumulated depreciation | (1,083,186) | (68,328) | - | (1,151,514) |
| Other capital assets, net | $ 3,737,084 | $ (308,445) | $ 30,000 | $ 3,398,639 |
| Total Sewer | $ 3,970,696 | $ (97,879) | $ 30,000 | $ 3,842,817 |
| Grand Totals | $ 12,904,899 | $ (513,037) | $ 30,000 | $ 12,361,862 |

**Construction Work in Progress**

The Authority has several uncompleted construction projects shown as an asset, Construction Work in Progress, at June 30, 2020. Presented below is a list of the major projects showing the expenditures, transfers of completed projects to asset accounts and the ending balances of each project during the last year:

Water Projects:

| Description | Balance July 1, 2019 | Expenditures | Transfers | Balance June 30, 2020 |
|---|---|---|---|---|
| Wintergreen 11th Green/Fairway | $ 12,083 | $ 18,934 | $ - | $ 31,017 |
| Totals | $ 12,083 | $ 18,934 | $ - | $ 31,017 |

Sewer Projects:

| Description | Balance July 1, 2019 | Expenditures | Transfers | Balance June 30, 2020 |
|---|---|---|---|---|
| Wintergreen Wastewater Treatment Plant | $ 188,409 | $ 50,757 | $ - | $ 239,166 |
| Wintergreen 11th Green/Fairway | 12,083 | 18,934 | - | 31,017 |
| Pedlar's SAG Pumping Station | - | 113,834 | - | 113,834 |
| Wintergreen Sand Filter Repair and Replacement | - | 26,460 | - | 26,460 |
| Schuyler Wastewater Treatment Plant Project | 30,000 | 581 | - | 30,581 |
| Totals | $ 230,492 | $ 210,566 | $ - | $ 441,058 |

## NOTE 4—PENSION PLAN:

### *Plan Description*

All full-time, salaried permanent employees of the Authority are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

### *Benefit Structures*

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, as detailed below.

a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.

b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age and plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.

c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

## NOTE 4—PENSION PLAN: (CONTINUED)

### *Average Final Compensation and Service Retirement Multiplier*

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

### *Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits*

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

### *Employees Covered by Benefit Terms*

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

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 5 |
| Inactive members: | |
| Vested inactive members | 4 |
| Non-vested inactive members | 5 |
| Inactive members active elsewhere in VRS | 6 |
| Total inactive members | 15 |
| Active members | 18 |
| Total covered employees | 38 |

## NOTE 4—PENSION PLAN: (CONTINUED)

### *Contributions*

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

The Authority's contractually required employer contribution rate for the year ended June 30, 2020 was 1.89% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $13,123 and $13,310 for the years ended June 30, 2020 and 2019, respectively.

### *Net Pension Liability (Asset)*

The net pension liability (asset) (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Authority, the net pension liability (asset) was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

### *Actuarial Assumptions – General Employees*

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.50% - 5.35% |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

## NOTE 4–PENSION PLAN: (CONTINUED)

***Actuarial Assumptions – General Employees: (Continued)***

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

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14.00% to 15.00% |
| Discount Rate | Decreased from 7.00% to 6.75% |

## NOTE 4—PENSION PLAN: (CONTINUED)

### *Long-Term Expected Rate of Return*

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

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

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

### *Discount Rate*

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Authority was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

## NOTE 4—PENSION PLAN: (CONTINUED)

### *Changes in Net Pension Liability (Asset)*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2018 | $ 3,271,847 | $ 3,562,567 | $ (290,720) |
| Changes for the year: | | | |
| Service cost | $ 68,474 | $ - | $ 68,474 |
| Interest | 226,958 | - | 226,958 |
| Changes of assumptions | 119,338 | - | 119,338 |
| Differences between expected and actual experience | (194,480) | - | (194,480) |
| Contributions - employer | - | 13,153 | (13,153) |
| Contributions - employee | - | 42,632 | (42,632) |
| Net investment income | - | 240,013 | (240,013) |
| Benefit payments, including refunds of employee contributions | (59,179) | (59,179) | - |
| Administrative expenses | - | (2,315) | 2,315 |
| Other changes | - | (151) | 151 |
| Net changes | $ 161,111 | $ 234,153 | $ (73,042) |
| Balances at June 30, 2019 | $ 3,432,958 | $ 3,796,720 | $ (363,762) |

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

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

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|---|---|---|
| Authority | | | |
| Net Pension Asset | $ 181,588 | $ (363,762) | $ (791,379) |

## NOTE 4–PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2020, the Authority recognized pension expense of $(25,331). At June 30, 2020, 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 | $ 26,921 | $ 155,580 |
| Change in assumptions | 89,652 | 25,929 |
| Net difference between projected and actual earnings on pension plan investments | - | 33,897 |
| Employer contributions subsequent to the measurement date | 13,123 | - |
| Total | $ 129,696 | $ 215,406 |

$13,123 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | |
|---|---|
| 2021 | $ (36,270) |
| 2022 | (46,879) |
| 2023 | (17,144) |
| 2024 | 1,460 |
| 2025 | - |

***Pension Plan Data***

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

## NOTE 5—LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

| | Balance July 01, 2019 | Issuances/ Additions | Retirements/ Reductions | Balance June 30, 2020 |
|---|---|---|---|---|
| Water: | | | | |
| Revenue Bonds Payable: | | | | |
| Direct borrowings and | | | | |
| direct placements | $ 5,283,237 | $ - | $ 183,418 | $ 5,099,819 |
| Net OPEB liabilities | 110,152 | 10,720 | 8,441 | 112,431 |
| Compensated Absences | 29,844 | 4,893 | - | 34,737 |
| Totals | $ 5,423,233 | $ 15,613 | $ 191,859 | $ 5,246,987 |

| | Balance July 01, 2019 | Issuances/ Additions | Retirements/ Reductions | Balance June 30, 2020 |
|---|---|---|---|---|
| Sewer: | | | | |
| Revenue Bonds Payable: | | | | |
| Direct borrowings and | | | | |
| direct placements | $ 1,587,311 | $ - | $ 1,279,181 | $ 308,130 |
| Net OPEB liabilities | 110,152 | 10,720 | 8,441 | 112,431 |
| Compensated Absences | 32,364 | 4,893 | - | 37,257 |
| Totals | $ 1,729,827 | $ 15,613 | $ 1,287,622 | $ 457,818 |

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

Details of long-term obligations:

| Revenue Bonds-Direct Borrowings and Direct Placements-Water: | Total Amount | Amount Due Within One Year |
|---|---|---|
| $125,000 Water and Sewer Revenue Bonds for Gladstone Water Project, dated October 2, 2009, payable in monthly installments of $419 beginning November 2, 2011 including interest at 2.5% through September 2050. | $ 104,243 | $ 2,438 |
| $1,500,000 Water Revenue Bond for the Route 29 Corridor Sewer dated February 18, 2000, payable in semi-annual installments of $25,000 through March 2030. No interest. | 500,000 | 50,000 |
| $2,370,679 Water and Sewer Revenue Bonds for Water Treatment Plant Project, dated March 31, 2010, payable in monthly installments of $10,364 beginning April 30, 2011 including interest at 4% through March 2051. | 2,107,840 | 40,778 |
| $600,000 Water Revenue Bonds for Administration Building (48% payable from Water Fund) dated February 26, 2008, payable in monthly installments of $1,299 including interest at 4.375% through February 2048. | 249,473 | 4,789 |
| $378,777 Water Revenue Bonds for Water Tank dated April 14, 2004, payable in semi-annual installments of $12,613 including interest at 2.75% through October 2024. | 93,654 | 21,115 |
| $325,000 Water Revenue Bonds for Water Impoundment dated February 25, 2005, payable in monthly installments of $1,492 including interest at 4.25% through February 2045. | 265,130 | 6,098 |
| $412,000 Water Revenue Bonds for Black Creek dated April 25, 2012 payable in monthly installments of $1,269, including interest at 2% through April 2050. | 205,245 | 11,226 |

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

Details of long-term obligations: (Continued)

| | Total Amount | Amount Due Within One Year |
|---|---|---|
| Revenue Bonds-Direct Borrowing and Direct Placements-Water: (Continued) | | |
| $1,356,000 Water Revenue Bonds for Water Impoundment dated September 28, 2004, payable in monthly installments of $6,008 including interest at 4.25% through September 2044. | $ 1,086,249 | $ 26,462 |
| $572,000 Water Revenue Bond for the Schuyler Water Plant Project Series 2016, dated January 5, 2016, payable in monthly installments of $3,158 including interest at 2.50% through January 5, 2036. | 487,985 | 25,975 |
| Total Revenue Bonds - Water | $ 5,099,819 | $ 188,881 |
| Net OPEB liabilities | 112,431 | - |
| Compensated absences | 34,737 | 34,737 |
| Total Long-Term Obligations - Water | $ 5,246,987 | $ 223,618 |
| Revenue Bonds-Direct Borrowing and Direct Placements-Sewer: | | |
| $600,000 Water Revenue Bonds for Administration Building (52% payable from Sewer Fund) dated February 26, 2008, payable in monthly installments of $1,407 including interest at 4.375% through February 2048. | $ 269,260 | $ 5,188 |
| $74,736 Water and Sewer Revenue Bond for Gladstone Sewer Project, dated March 17, 2011, payable in semi-annual installments of $1,868 beginning November 1, 2011 through May 1, 2031. No interest. | 38,870 | 3,534 |
| Total Revenue Bonds - Sewer | $ 308,130 | $ 8,722 |
| Net OPEB liabilities | 112,431 | - |
| Compensated absences | 37,257 | 37,257 |
| Total Long-Term Obligations - Sewer | $ 457,818 | $ 45,979 |
| Total Long-Term Obligations | $ 5,704,805 | $ 269,597 |

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

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

| | Direct Borrowings and Direct Placements | | | |
|---|---|---|---|---|
| Year Ending | Water Revenue Bonds | | Sewer Revenue Bonds | |
| June 30 | Principal | Interest | Principal | Interest |
| 2021 | $ 188,881 | $ 173,041 | $ 8,722 | $ 11,756 |
| 2022 | 193,717 | 168,216 | 8,953 | 11,526 |
| 2023 | 198,731 | 163,214 | 9,195 | 11,286 |
| 2024 | 203,932 | 158,026 | 9,448 | 11,036 |
| 2025 | 191,395 | 152,729 | 9,712 | 10,774 |
| 2026-2030 | 1,006,919 | 685,421 | 52,951 | 49,512 |
| 2031-2035 | 906,695 | 536,069 | 47,426 | 40,965 |
| 2036-2040 | 841,526 | 367,959 | 54,603 | 30,326 |
| 2041-2045 | 917,842 | 184,719 | 67,928 | 17,084 |
| 2046-2050 | 450,181 | 31,425 | 39,192 | 2,607 |
| Total | $ 5,099,819 | $ 2,620,819 | $ 308,130 | $ 196,872 |

All of the aforementioned bonds are collateralized by a pledge of revenues from the Authority's water and sewer systems. In addition, the 2000 bonds are guaranteed by a moral obligation pledge from Nelson County in the form of a Support Agreement. In fiscal year 2020, the County paid additional fire protection fees (for debt service) to the authority in the amount of $290,609.

During the fiscal year ended June 30, 2020, the County of Nelson contributed $604,704 to the Authority to utilize towards fully retiring a Rural Development bond. The total amount of the early bond retirement was $1,209,408.

Line of Credit – The Authority had a $600,000 line of credit available through a local bank during the year. There was no balance and no activity on the line of credit during the year.

The bonds are governed by a number of general covenants relating to debt service requirements and other restrictions on assets including a revenue covenant. The rate covenant requires the Authority to have net revenues available for debt service in an amount at least equal to 115% of required debt service. The Authority satisfied the rate covenant in FY2020. Debt agreements do not specify remedies in the event of a default.

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

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

*Plan Description*

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

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

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

*Benefits Provided*

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

**General Employees Plan 1**

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

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

**General Employees Plan 2 and Hybrid Plan**

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

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

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

- Anthem Key Advantage 250 (PPO)
- Anthem Key Advantage Expanded (PPO)

Medicare eligible retirees may only elect the following medical option:

- Anthem Advantage 65

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

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

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

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

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

*Benefits Provided: (Continued)*

**General Employees Plan 2 and Hybrid Plan: (Continued)**

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

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

*Plan Membership*

At July 1, 2019 (valuation date), the following employees were covered by the benefit terms:

| | |
|---|---|
| Total active employees with coverage | 18 |
| Total retirees with coverage | 1 |
| Total | 19 |

*Contributions*

The Authority does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Authority Board. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2020 was $1,083.

*Total OPEB Liability*

The Authority's Total OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019.

*Actuarial Assumptions*

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% per year as of July 1, 2019 |
| Salary Increases | The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service. |
| Discount Rate | 3.50% for accounting and funding disclosures as of June 30, 2019<br>2.21% for accounting and funding disclosures as of June 30, 2020 |

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

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

***Pre-Retirement Mortality Rates***

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

***Post-Retirement Mortality Rates***

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

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

***Post-Disablement Mortality Rates***

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

***Discount Rate***

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 11-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 2.21% as of the end of the fiscal year.

***Changes in Total OPEB Liability***

| | | |
|---|---|---|
| Balances at June 30, 2019 | $ | 146,304 |
| Changes for the year: | | |
| Service cost | | 7,482 |
| Interest | | 5,364 |
| Effect of Economic/Demographic Gains or Losses | | (29,632) |
| Effect of Assumptions Changes or Inputs | | 21,573 |
| Benefit payments | | (1,083) |
| Net changes | $ | 3,704 |
| Balances at June 30, 2020 | $ | 150,008 |

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

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

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current discount rate:

| | Rate | |
|---|---|---|
| 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
| $ 172,656 | $ 150,008 | $ 130,823 |

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

The following presents the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00% decreasing annually to an ultimate rate of 3.00%) or one percentage point higher (7.00% decreasing to an ultimate rate of 5.00%) than the current healthcare cost trend rates:

| | Rates | |
|---|---|---|
| 1% Decrease (5.00% decreasing to 3.00%) | Healthcare Cost Trend (6.00% decreasing to 4.00%) | 1% Increase (7.00% decreasing to 5.00%) |
| $ 125,768 | $ 150,008 | $ 181,264 |

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

For the year ended June 30, 2020, the Authority recognized OPEB expense in the amount of $15,259. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes in assumptions | $ 43,403 | $ - |
| Difference between projected and actual experience | - | 26,783 |
| Total | $ 43,403 | $ 26,783 |

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

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

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources: (Continued)***

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

| Year Ended June 30 | | |
|---|---|---|
| 2021 | $ | 2,413 |
| 2022 | | 2,413 |
| 2023 | | 2,413 |
| 2024 | | 2,413 |
| 2025 | | 2,413 |
| Thereafter | | 4,555 |

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

### Group Life Insurance (GLI) Plan (OPEB Plan)

***Plan Description***

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. 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 plan, it is not included as part of the GLI Plan OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

***Eligible Employees***

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

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

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

*Benefit Amounts*

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts 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. For covered members with at least 30 years of service credit, the minimum benefit payable was set at $8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was $8,463 as of June 30, 2020.

*Contributions*

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Plan from the entity were $4,898 and $4,728 for the years ended June 30, 2020 and June 30, 2019, respectively.

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB***

At June 30, 2020, the entity reported a liability $74,854 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .0046% as compared to .00488% at June 30, 2018.

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

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB: (Continued)***

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of $1,032. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 4,978 | $ 971 |
| Net difference between projected and actual earnings on GLI OPEB plan investments | - | 1,538 |
| Change in assumptions | 4,727 | 2,257 |
| Changes in proportion | - | 3,735 |
| Employer contributions subsequent to the measurement date | 4,898 | - |
| Total | $ 14,603 | $ 8,501 |

$4,898 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

| Year Ended June 30 | |
|---|---|
| 2021 | $ (433) |
| 2022 | (433) |
| 2023 | 218 |
| 2024 | 813 |
| 2025 | 839 |
| Thereafter | 199 |

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

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

*Actuarial Assumptions*

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Locality - General employees | 3.50%-5.35% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation* |

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

**Mortality Rates – Non-Largest Ten Locality Employers – General Employees**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

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

| | |
|---|---|
| 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 14.00% to 15.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

***NET GLI OPEB Liability***

The net OPEB liability (NOL) for the GLI Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

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

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

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

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

***Long-Term Expected Rate of Return***

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

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

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

***Discount Rate***

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

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

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

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

| | Rate | | |
|---|---|---|---|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| Authority's proportionate share of the Group Life Insurance Plan Net OPEB Liability | $ 98,337 | $ 74,854 | $ 55,809 |

***GLI Plan Fiduciary Net Position***

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**OPEB Aggregate Totals**

| | Deferred Outflows of Resources | Net OPEB Liabilities | Deferred Inflows of Resources | Expense |
|---|---|---|---|---|
| Retiree Plan | $ 43,403 | $ 150,008 | $ 26,783 | $ 15,259 |
| GLI | 14,603 | 74,854 | 8,501 | 1,032 |
| Totals | $ 58,006 | $ 224,862 | $ 35,284 | $ 16,291 |

## NOTE 7—RISK MANAGEMENT:

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

## NOTE 8—COMMITMENTS AND CONTINGENCIES:

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

The Authority has plans to replace the Wintergreen wastewater treatment plant and make improvements to the sewer collection system at a cost of approximately $15,000,000. This project is to be funded through loans from the United States Department of Agriculture Rural Development or other sources. No contracts have been signed and no funds have been borrowed as of June 30, 2020.

## NOTE 9—UPCOMING PRONOUNCEMENTS:

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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

## NOTE 10—COVID-19 PANDEMIC SUBSEQUENT EVENT:

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the "COVID-19 outbreak"). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The COVID-19 pandemic has developed rapidly in 2020 and remains a quickly evolving situation. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact economic activity. The Authority is not able to estimate the effects of the COVID-19 pandemic for fiscal year 2021.

# Required Supplementary Information

**NELSON COUNTY SERVICE AUTHORITY**

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Measurement Dates of June 30, 2014 through June 30, 2019

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Total pension liability** | | | | | | |
| Service cost | $ 68,474 | $ 74,178 | $ 75,984 | $ 86,559 | $ 92,489 | $ 94,627 |
| Interest | 226,958 | 209,385 | 197,968 | 183,830 | 173,319 | 158,516 |
| Differences between expected and actual experience | (194,480) | 29,459 | 39,406 | (17,550) | (71,530) | - |
| Changes in assumptions | 119,338 | - | (94,164) | - | - | - |
| Benefit payments, including refunds of employee contributions | (59,179) | (64,767) | (47,432) | (54,300) | (33,953) | (49,393) |
| **Net change in total pension liability** | $ 161,111 | $ 248,255 | $ 171,762 | $ 198,539 | $ 160,325 | $ 203,750 |
| **Total pension liability - beginning** | 3,271,847 | 3,023,592 | 2,851,830 | 2,653,291 | 2,492,966 | 2,289,216 |
| **Total pension liability - ending (a)** | $ 3,432,958 | $ 3,271,847 | $ 3,023,592 | $ 2,851,830 | $ 2,653,291 | $ 2,492,966 |
| | | | | | | |
| **Plan fiduciary net position** | | | | | | |
| Contributions - employer | $ 13,153 | $ 25,549 | $ 26,373 | $ 45,009 | $ 45,587 | $ 48,305 |
| Contributions - employee | 42,632 | 44,352 | 44,575 | 44,193 | 44,779 | 47,081 |
| Net investment income | 240,013 | 246,811 | 361,227 | 51,396 | 124,624 | 363,411 |
| Benefit payments, including refunds of employee contributions | (59,179) | (64,767) | (47,432) | (54,300) | (33,953) | (49,393) |
| Administrative expense | (2,315) | (2,090) | (2,023) | (1,741) | (1,626) | (1,901) |
| Other | (151) | (221) | (324) | (21) | (26) | 20 |
| **Net change in plan fiduciary net position** | $ 234,153 | $ 249,634 | $ 382,396 | $ 84,536 | $ 179,385 | $ 407,523 |
| **Plan fiduciary net position - beginning** | 3,562,567 | 3,312,933 | 2,930,537 | 2,846,001 | 2,666,616 | 2,259,093 |
| **Plan fiduciary net position - ending (b)** | $ 3,796,720 | $ 3,562,567 | $ 3,312,933 | $ 2,930,537 | $ 2,846,001 | $ 2,666,616 |
| | | | | | | |
| **Authority's net pension asset - ending (a) - (b)** | $ (363,762) | $ (290,720) | $ (289,341) | $ (78,707) | $ (192,710) | $ (173,650) |
| | | | | | | |
| **Plan fiduciary net position as a percentage of the total pension liability** | 110.60% | 108.89% | 109.57% | 102.76% | 107.26% | 106.97% |
| | | | | | | |
| **Covered payroll** | $ 902,216 | $ 930,093 | $ 926,850 | $ 907,286 | $ 902,864 | $ 937,128 |
| | | | | | | |
| **Authority's net pension asset as a percentage of covered payroll** | -40.32% | -31.26% | -31.22% | -8.67% | -21.34% | -18.53% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

NELSON COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions - Pension Plan
For the Years Ended June 30, 2011 through June 30, 2020

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2020 | $ 13,123 | $ 13,123 | $ - | $ 942,032 | 1.39% |
| 2019 | 13,310 | 13,310 | - | 902,216 | 1.48% |
| 2018 | 25,524 | 25,524 | - | 930,093 | 2.74% |
| 2017 | 26,460 | 26,460 | - | 926,850 | 2.85% |
| 2016 | 45,010 | 45,010 | - | 907,286 | 4.96% |
| 2015 | 45,520 | 45,520 | - | 902,864 | 5.04% |
| 2014 | 48,075 | 48,075 | - | 937,128 | 5.13% |
| 2013 | 48,430 | 48,430 | - | 944,049 | 5.13% |
| 2012 | 29,908 | 29,908 | - | 911,844 | 3.28% |
| 2011 | 28,415 | 28,415 | - | 866,313 | 3.28% |

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

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14.00% to 15.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

**NELSON COUNTY SERVICE AUTHORITY**

Schedule of Nelson County Service Authority's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates of June 30, 2017 through 2019

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---|---|---|---|---|---|
| 2019 | 0.00460% | $ 74,854 | $ 902,216 | 8.30% | 52.00% |
| 2018 | 0.00488% | 74,000 | 930,093 | 7.96% | 51.22% |
| 2017 | 0.00502% | 76,000 | 926,850 | 8.20% | 48.86% |

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

**NELSON COUNTY SERVICE AUTHORITY**

Schedule of Employer Contributions
Group Life Insurance Program
Years Ended June 30, 2011 through June 30, 2020

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2020 | $ 4,898 | $ 4,898 | $ - | $ 942,032 | 0.52% |
| 2019 | 4,728 | 4,728 | - | 902,216 | 0.52% |
| 2018 | 4,427 | 4,427 | - | 930,093 | 0.52% |
| 2017 | 4,820 | 4,820 | - | 926,850 | 0.52% |
| 2016 | 4,355 | 4,355 | - | 907,286 | 0.48% |
| 2015 | 4,334 | 4,334 | - | 902,864 | 0.48% |
| 2014 | 4,498 | 4,498 | - | 937,128 | 0.48% |
| 2013 | 4,531 | 4,531 | - | 944,049 | 0.48% |
| 2012 | 2,542 | 2,542 | - | 907,857 | 0.28% |
| 2011 | 2,426 | 2,426 | - | 866,313 | 0.28% |

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

**Non-Largest Ten Locality Employers - General Employees**

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14.00% to 15.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

**NELSON COUNTY SERVICE AUTHORITY**

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios - Health Insurance
For the Measurement Dates of June 30, 2018 through 2020

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Total OPEB liability** | | | |
| Service cost | $ 7,482 | $ 8,407 | $ 6,317 |
| Interest | 5,364 | 5,281 | 2,860 |
| Effect of plan changes | - | - | 18,304 |
| Effect of Economic/Demographic Gains or Losses | (29,632) | - | - |
| Effect of Assumptions Changes or Inputs | 21,573 | 5,991 | 26,846 |
| Benefit payments | (1,083) | (2,823) | (530) |
| **Net change in total OPEB liability** | $ 3,704 | $ 16,856 | $ 53,797 |
| **Total OPEB liability - beginning** | 146,304 | 129,448 | 75,651 |
| **Total OPEB liability - ending** | $ 150,008 | $ 146,304 | $ 129,448 |
| | | | |
| **Covered payroll** | $ N/A | $ N/A | $ N/A |
| | | | |
| **Authority's total OPEB liability as a percentage of covered payroll** | N/A | N/A | N/A |

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

Notes to Required Supplementary Information - Health Insurance
Year Ended June 30, 2020

Valuation Date: 7/1/2019
Measurement Date: 6/30/2020

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

*Methods and assumptions used to determine OPEB liability:*

| | |
|---|---|
| Actuarial Cost Method | Entry age normal level % of pay |
| Discount Rate | 3.50% as of June 30, 2019; 2.21% as of June 30, 2020 |
| Inflation | 2.50% per year as of June 30, 2019; 2.50% per year as of June 30, 2020 |
| Healthcare Trend Rate | The healthcare trend rate assumption starts at 6.00% in 2020, decreases to 4.70% in 2021, 5.10% for 2022, then grading to an ultimate rate of 4.00% for fiscal 2074. |
| Salary Increase Rates | The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service |
| Retirement Age | The average age at retirement is 62 |
| Mortality Rates | ***Pre-Retirement Mortality Rates*** RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related. ***Post-Retirement Mortality Rates*** RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85. ***Post-Disablement Mortality Rates*** RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates. |

# Other Supplementary Information

## Supporting Schedules

**NELSON COUNTY SERVICE AUTHORITY** **Schedule 1**

Schedule of Revenues and Expenses - Budget and Actual
Year Ended June 30, 2020

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Operating Revenue: | | | |
| Water and sewer charges | $ 4,297,092 | $ 3,890,910 | $ (406,182) |
| Availability fees | 36,000 | 36,788 | 788 |
| Fire protection | 318,812 | 290,609 | (28,203) |
| Connection fees | 28,000 | 8,000 | (20,000) |
| Other | 125,000 | 83,591 | (41,409) |
| Total Operating Revenue | $ 4,804,904 | $ 4,309,898 | $ (495,006) |
| Operating Expenses: | | | |
| Personnel | $ 1,103,500 | $ 1,028,839 | $ 74,661 |
| Depreciation | 821,040 | 803,090 | 17,950 |
| Maintenance | 292,800 | 291,640 | 1,160 |
| Fringe benefits | 342,180 | 248,108 | 94,072 |
| Operations | 290,000 | 355,633 | (65,633) |
| Power pumping | 158,500 | 207,305 | (48,805) |
| Raw water | 372,444 | 418,064 | (45,620) |
| General and administrative | 141,800 | 119,539 | 22,261 |
| Insurance | 55,000 | 46,801 | 8,199 |
| Contractual services | 173,000 | 134,326 | 38,674 |
| Grinder pump expenses | 183,000 | 88,737 | 94,263 |
| Uniforms | 6,200 | 3,246 | 2,954 |
| Small tools | 1,500 | 67 | 1,433 |
| Total Operating Expenses | $ 3,940,964 | $ 3,745,395 | $ 195,569 |
| Income (loss) from Operations | $ 863,940 | $ 564,503 | $ (299,437) |
| Nonoperating Revenues (Expenses): | | | |
| Interest earned | $ 5,500 | $ 9,672 | $ 4,172 |
| Interest expense | (223,292) | (219,450) | 3,842 |
| Total nonoperating revenues (expenses) | $ (217,792) | $ (209,778) | $ 8,014 |
| Income (loss) | $ 646,148 | $ 354,725 | $ (291,423) |

Schedule of Funding and Expenditures - Capital Budget
Year Ended June 30, 2020

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **Funding:** | | | |
| Income (loss) before contributed capital | $ 646,148 | $ 354,725 | $ (291,423) |
| Depreciation | 821,040 | 803,090 | (17,950) |
| Contributed capital | - | 642,834 | 642,834 |
| Total Funding | $ 1,467,188 | $ 1,800,649 | $ 333,461 |
| **Expenditures:** | | | |
| Principal payments on debt | $ 123,145 | $ 1,462,599 | $ (1,339,454) |
| Capital expenditures | 422,500 | 260,053 | 162,447 |
| Total Expenditures | $ 545,645 | $ 1,722,652 | $ (1,177,007) |
| Funding Over (Under) Expenditures | $ 921,543 | $ 77,997 | $ (843,546) |

Debt Service Coverage
Last Ten Fiscal Years

| Fiscal Year | Gross Revenue | Direct Operating Expenses | Net Revenue Available For Debt Service | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 2020 | $ 4,319,570 | $ 2,942,305 | $ 1,377,265 | $ 253,191 | $ 220,988 | $ 474,179 | 2.90 |
| 2019 | 4,015,971 | 2,665,219 | 1,350,752 | 356,696 | 236,316 | 593,012 | 2.28 |
| 2018 | 4,074,134 | 2,825,956 | 1,248,178 | 702,026 | 250,467 | 952,493 | 1.31 |
| 2017 | 4,000,016 | 2,644,482 | 1,355,534 | 906,131 | 274,363 | 1,180,494 | 1.15 |
| 2016 | 4,038,777 | 2,612,224 | 1,426,553 | 727,389 | 277,964 | 1,005,353 | 1.42 |
| 2015 | 4,096,369 | 2,629,907 | 1,466,462 | 710,823 | 295,513 | 1,006,336 | 1.46 |
| 2014 | 4,070,513 | 2,584,422 | 1,486,091 | 697,209 | 386,442 | 1,083,651 | 1.37 |
| 2013 | 4,143,361 | 2,473,024 | 1,670,337 | 675,065 | 396,959 | 1,072,024 | 1.56 |
| 2012 | 4,080,814 | 2,245,397 | 1,835,417 | 663,588 | 426,382 | 1,089,970 | 1.68 |
| 2011 | 3,543,000 | 2,236,383 | 1,306,617 | 594,421 | 395,151 | 989,572 | 1.32 |

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

Principal payments in fiscal year 2020 exclude an early retirement of indebtedness payment of $1,209,408.

# Compliance

RFC
CPAs | Consultants
Robinson, Farmer, Cox Associates, PLLC
Certified Public Accountants

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

**BOARD OF DIRECTORS**
**NELSON COUNTY SERVICE AUTHORITY**
**LOVINGSTON, VIRGINIA**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Nelson County Service Authority as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Nelson County Service Authority's financial statements and have issued our report thereon dated October 27, 2020.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Nelson County Service Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 27, 2020