# WASHINGTON COUNTY SERVICE AUTHORITY

Financial Statements

For the Year Ended June 30, 2020

**Washington County Service Authority**
**Financial Statements**
**For the Year Ended June 30, 2020**
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ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

CPAs | CONSULTANTS

## Independent Auditors' Report

**To the Board of Directors**
**Washington County Service Authority**
**Abingdon, Virginia**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Washington 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 Washington County Service 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 respective financial position of the business-type activities of Washington County Service Authority, as of June 30, 2020, and the respective 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.

### *Restatement of Beginning Balances*

As described in Note 12 to the financial statements, in 2020, the Washington County Service Authority restated beginning balances to reflect the correction of an error. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 and schedules related to pension and OPEB funding on pages 40-47 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2021, on our consideration of Washington 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 Washington 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 Washington County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
February 18, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington County Service Authority's ("WCSA") discussion and analysis of the financial statements is designed to (a) assist the reader in understanding the significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the financial position and its ability to address subsequent year issues, (d) point out material deviations from the approved budget, and (e) identify individual fund issues or concerns.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities and facts and must be read in conjunction with the financial statements so that this report may be understood in its entirety.

### Financial Highlights

The following comparisons relate WCSA's current position at June 30, 2019 to its position at June 30, 2020. WCSA's total assets increased by $9,179,017 (6.79%). Unrestricted cash and cash equivalents increased by $1,431,361 (9.05%). Inventory held for use increased by $18,865 (3.86%). Capitalized assets (excluding accumulated depreciation) decreased by $2,254,601 (13.26%).

Total liabilities increased by $7,571,533 (10.22%).

The Authority's operating revenues increased $1,329,127 (7.60%), while operating expenses increased by $567,679 (4.02%). Operating net income increased by $761,448 (22.50% increase over 2019). Activities increased net position for the year by $2,569,925.

A discussion of significant department operating expense differences from the 2019-2020 budget follows:

Operating revenue for the water fund was under budget in the amount of $314,318. Total operating expenses for the Water Fund were under budget by $1,100,444. Operating revenue for the sewer fund was over budget in the amount of $121,274. Total operating expenses for the Sewer Fund were under budget by $2,556.

Interest expenses were over budget by $205,296, as well as, interest income was over budget by $103,406. While WCSA is aggressive in seeking the best return on its investment, it has no control over market rates.

**Required Financial Statements**

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure 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 successes 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 user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and noncapital and capital financing activities and provides answers to such as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**NET POSITION**

| | FY 2020 | FY 2019 (A) | Dollar Change | Total Percent Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current and other assets | $ 32,910,869 | $ 22,074,209 | $ 10,836,660 | 49.09% |
| Capital assets | 111,343,328 | 113,000,971 | (1,657,643) | -1.47% |
| **TOTAL ASSETS** | **$ 144,254,197** | **$ 135,075,180** | **$ 9,179,017** | **6.80%** |
| **DEFERRED OUTFLOWS OF RESOURCES** | **$ 555,836** | **$ 196,309** | **$ 359,527** | **183.14%** |
| **LIABILITIES** | | | | |
| Long-term debt outstanding | $ 77,666,668 | $ 69,987,163 | $ 7,679,505 | 10.97% |
| Other liabilities | 3,972,667 | 4,080,639 | (107,972) | -2.65% |
| **TOTAL LIABILITIES** | **$ 81,639,335** | **$ 74,067,802** | **$ 7,571,533** | **10.22%** |
| **DEFERRED INFLOWS OF RESOURCES** | **$ 618,813** | **$ 842,792** | **$ (223,979)** | **-26.58%** |
| **NET POSITION** | | | | |
| Invested in capital assets net of related debt | $ 42,922,178 | $ 42,879,112 | $ 43,066 | 0.10% |
| Restricted | 3,108,565 | 2,557,896 | 550,669 | 21.53% |
| Unrestricted | 16,521,142 | 14,923,887 | 1,597,255 | 10.70% |
| **TOTAL NET POSITION** | **$ 62,551,885** | **$ 60,360,895** | **$ 2,190,990** | **3.63%** |

(A) Amounts have not been updated to reflect the statement of beginning balances discussed in Note 12 to the financial statements.

As can be seen from the table above, net position increased $2,569,925 to $62,551,885 in 2020 up from $59,981,960 in 2019. The increase in net position was primarily due to a decrease in other liabilities. The increase in current and other assets is largely due to an increase in reserves.

| | | FY 2020 | | FY 2019 | | Dollar Change | Total Percent Change |
|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | |
| Operating revenues | $ | 18,815,264 | $ | 17,486,137 | $ | 1,329,127 | 7.60% |
| Non-operating revenues | | 389,829 | | 658,121 | | (268,292) | -40.77% |
| **TOTAL REVENUES** | **$** | **19,205,093** | **$** | **18,144,258** | **$** | **1,060,835** | **5.85%** |
| **EXPENSES** | | | | | | | |
| Depreciation expense | $ | 3,975,112 | $ | 3,945,714 | $ | 29,398 | 0.75% |
| Other operating expenses | | 10,694,948 | | 10,156,667 | | 538,281 | 5.30% |
| Non-operating expenses | | 1,965,108 | | 1,551,341 | | 413,767 | 26.67% |
| **TOTAL EXPENSES** | **$** | **16,635,168** | **$** | **15,653,722** | **$** | **981,446** | **6.27%** |
| Net income | $ | 2,569,925 | $ | 2,490,536 | $ | 79,389 | |
| Beginning net position, as restated | $ | 59,981,960 | $ | 57,870,359 | | | |
| Ending net position | $ | 62,551,885 | $ | 60,360,895 | | | |

While the Statement of Net Position shows the change in financial position of the net position, the Statement of Revenue, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in the schedule above, the current year's net income of $2,569,925 was the source of the increase in net position for 2020.

The Authority's net income increased by $79,389 to $2,569,925 in 2020 from $2,490,536 in 2019 with operating expenses being under budget. Non-operating revenues decreased by ($268,292) in 2020.

**Capital & Operating Highlights**

The Authority has continued with its Capital Improvements Plan that includes planned departmental expenditures to update and add infrastructure, computer information systems, machinery and equipment, furniture and fixtures and automobiles.

WCSA has continued to focus on replacing failing and inadequate sized infrastructure and extending service to unserved residents in Washington County.

WCSA has continued to focus labor and financial resources towards continuous improvement efforts in all areas of its operations. The Authority has invested time and money in assessing the vulnerability of our operations and implementing procedures and devices that increase the safety and reliability of our system. WCSA is in the eighth year of replacing substandard waterlines. WCSA also continues to focus on training in an effort to ensure that in all areas of service to our customers. WCSA employees have the best training and resources to excel in their positions.

# Basic Financial Statements

Exhibit 1

**Washington County Service Authority**
**Statement of Net Position**
**Proprietary Funds**
**June 30, 2020**

| | Business-type Activities Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | $ 11,738,593 | $ 5,502,495 | $ 17,241,088 |
| Investments | 449,396 | - | 449,396 |
| Accounts Receivable (net of allowance for doubtful accounts) | 1,762,769 | 274,243 | 2,037,012 |
| Inventories | 507,396 | - | 507,396 |
| Prepaid Items | 115,245 | 12,742 | 127,987 |
| Land Purchase Option | 2,000 | - | 2,000 |
| Total Current Assets | $ 14,575,399 | $ 5,789,480 | $ 20,364,879 |
| Noncurrent Assets: | | | |
| Restricted: | | | |
| Cash and Cash Equivalents | $ 12,394,835 | $ 151,155 | $ 12,545,990 |
| Capital Assets: | | | |
| Land | 963,426 | 272,865 | 1,236,291 |
| Construction in Process | 2,772,836 | 988,303 | 3,761,139 |
| Water Tanks | 6,940,525 | - | 6,940,525 |
| Lines | 83,044,188 | 23,049,648 | 106,093,836 |
| Buildings | 32,044,106 | 6,137,251 | 38,181,357 |
| Improvements | 3,912,601 | 233,244 | 4,145,845 |
| Automobiles | 1,613,041 | 421,063 | 2,034,104 |
| Equipment | 7,710,267 | 555,740 | 8,266,007 |
| Furniture and Fixtures | 140,355 | 28,259 | 168,614 |
| Computers and Telemetry | 1,376,883 | 94,005 | 1,470,888 |
| Accumulated Depreciation | (49,975,571) | (10,979,707) | (60,955,278) |
| Total Capital Assets, Net of Accumulated Depreciation | $ 90,542,657 | $ 20,800,671 | $ 111,343,328 |
| Total Noncurrent Assets | $ 102,937,492 | $ 20,951,826 | $ 123,889,318 |
| Total Assets | $ 117,512,891 | $ 26,741,306 | $ 144,254,197 |
| | | | |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Pension Related Items | $ 455,896 | $ 36,032 | $ 491,928 |
| OPEB Related Items | 59,121 | 4,787 | 63,908 |
| Total Deferred Outflows of Resources | $ 515,017 | $ 40,819 | $ 555,836 |
| | | | |
| **LIABILITIES** | | | |
| Current Liabilities: | | | |
| Accounts Payable | $ 420,775 | $ 265,693 | $ 686,468 |
| Retainage Payable | 18,955 | 11,175 | 30,130 |
| Accrued Liabilities | 213,432 | 19,542 | 232,974 |
| Accrued Interest Payable | 188,221 | 11,499 | 199,720 |
| Compensated Absences (current portion) | 175,930 | 7,629 | 183,559 |
| Bonds Payable (current portion) | 2,363,230 | 437,390 | 2,800,620 |
| Total Current Liabilities | $ 3,380,543 | $ 752,928 | $ 4,133,471 |
| Noncurrent Liabilities: | | | |
| Compensated Absences (net of current portion) | $ 703,721 | $ 30,518 | $ 734,239 |
| Net OPEB Liabilities | 1,696,272 | 142,164 | 1,838,436 |
| Net Pension Liability | 62,210 | 4,931 | 67,141 |
| Bonds Payable (net of current portion) | 66,225,214 | 8,640,834 | 74,866,048 |
| Total Noncurrent Liabilities | $ 68,687,417 | $ 8,818,447 | $ 77,505,864 |
| Total Liabilities | $ 72,067,960 | $ 9,571,375 | $ 81,639,335 |
| | | | |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Pension Related Items | $ 551,597 | $ 44,916 | $ 596,513 |
| OPEB Related Items | 20,662 | 1,638 | 22,300 |
| Total Deferred Inflows of Resources | $ 572,259 | $ 46,554 | $ 618,813 |
| | | | |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | $ 31,210,906 | $ 11,711,272 | $ 42,922,178 |
| Restricted: | | | |
| RD Debt Service Reserves | 2,254,996 | 151,155 | 2,406,151 |
| Health Insurance Premiums | 702,414 | - | 702,414 |
| Unrestricted | 11,219,373 | 5,301,769 | 16,521,142 |
| Total Net Position | $ 45,387,689 | $ 17,164,196 | $ 62,551,885 |

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

Exhibit 2

**Washington County Service Authority**
**Statement of Revenues, Expenses and Changes in Net Position**
**Proprietary Funds**
**For the Year Ended June 30, 2020**

| | Business-type Activities Enterprise Funds | | |
|---|---|---|---|
| | **Water** | **Sewer** | **Total** |
| **Operating Revenues** | $ 16,020,960 | $ 2,794,304 | $ 18,815,264 |
| **Operating Expenses** | | | |
| Commissioners | $ 29,430 | $ - | $ 29,430 |
| Administration and Overhead | 2,145,693 | 21,890 | 2,167,583 |
| Customer Service | 896,517 | - | 896,517 |
| Maintenance | 2,862,458 | 184,304 | 3,046,762 |
| Production | 1,909,319 | 1,093,905 | 3,003,224 |
| Water Distribution | 613,019 | - | 613,019 |
| Meter Department | 486,993 | - | 486,993 |
| Chilhowie Regional Treatment Plant | 312,792 | - | 312,792 |
| Damascus | - | 138,628 | 138,628 |
| Depreciation | 3,143,935 | 831,177 | 3,975,112 |
| Total Operating Expenses | $ 12,400,156 | $ 2,269,904 | $ 14,670,060 |
| **Operating Income (Loss)** | $ 3,620,804 | $ 524,400 | $ 4,145,204 |
| **Nonoperating Revenues (Expenses)** | | | |
| Interest Income | $ 219,715 | $ 271 | $ 219,986 |
| Interest Expense | (1,615,719) | (214,601) | (1,830,320) |
| Gain (Loss) on Disposal of Assets | 13,500 | - | 13,500 |
| Forgiveness of Settlement Receivable | (134,788) | - | (134,788) |
| Insurance Recovery | 2,541 | - | 2,541 |
| Total Nonoperating Revenues (Expenses) | $ (1,514,751) | $ (214,330) | $ (1,729,081) |
| **Income (Loss) Before Capital Contributions and Transfers** | $ 2,106,053 | $ 310,070 | $ 2,416,123 |
| **Capital Contributions and Transfers** | | | |
| Transfers In (Out) | $ (50) | $ 50 | $ - |
| Capital Contributions - State and Federal Grants | 153,802 | - | 153,802 |
| Total Capital Contributions and Transfers | $ 153,752 | $ 50 | $ 153,802 |
| **Increase (Decrease) in Net Position** | $ 2,259,805 | $ 310,120 | $ 2,569,925 |
| **Net Position - Beginning, as restated** | 43,127,884 | 16,854,076 | 59,981,960 |
| **Net Position - Ending** | $ 45,387,689 | $ 17,164,196 | $ 62,551,885 |

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

Exhibit 3

**Washington County Service Authority**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Year Ended June 30, 2020**

| | Business-type Activities Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| **Cash Flows from Operating Activities:** | | | |
| Receipts from Customers | $ 15,979,010 | $ 2,797,043 | $ 18,776,053 |
| Payments to Suppliers | (3,996,229) | (745,607) | (4,741,836) |
| Payments to Employees | (5,872,645) | (547,286) | (6,419,931) |
| Net Cash Provided by (Used for) Operating Activities | $ 6,110,136 | $ 1,504,150 | $ 7,614,286 |
| **Cash Flows from Noncapital Financing Activities:** | | | |
| Transfers from (to) other funds | $ (50) | $ 50 | $ - |
| **Cash Flows from Capital and Related Financing Activities:** | | | |
| Purchase of Property, Plant and Equipment | $ (2,181,310) | $ (444,400) | $ (2,625,710) |
| Capital Contributions From Other Governments | 281,057 | - | 281,057 |
| Proceeds from Settlement | 4,529 | - | 4,529 |
| Proceeds from Sale of Assets | 13,500 | - | 13,500 |
| Insurance Recovery | 2,541 | - | 2,541 |
| Principal Paid on Bonds | (1,797,684) | (428,248) | (2,225,932) |
| Proceeds from Bonds | 9,905,437 | - | 9,905,437 |
| Interest Paid on Bonds | (1,547,626) | (215,410) | (1,763,036) |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | $ 4,680,444 | $ (1,088,058) | $ 3,592,386 |
| **Cash Flows from Investing Activities:** | | | |
| Interest Income | $ 212,512 | $ 271 | $ 212,783 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | $ 11,003,042 | $ 416,413 | $ 11,419,455 |
| **Cash and Cash Equivalents at Beginning of Year (includes restricted amounts of $2,429,377 and $128,599 for the water and sewer fund, respectively)** | 13,130,386 | 5,237,237 | 18,367,623 |
| **Cash and Cash Equivalents at End of Year (includes restricted amounts of $12,394,835 and $151,155 for the water and sewer fund, respectively)** | $ 24,133,428 | $ 5,653,650 | $ 29,787,078 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:** | | | |
| Operating Income (Loss) | $ 3,620,804 | $ 524,400 | $ 4,145,204 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities: | | | |
| Depreciation Expense | $ 3,143,935 | $ 831,177 | $ 3,975,112 |
| (Increase) Decrease in Assets and Deferred Outflows of Resources: | | | |
| Accounts Receivable | (41,950) | 2,739 | (39,211) |
| Inventory | (18,865) | - | (18,865) |
| Prepaid Items | (3,853) | (259) | (4,112) |
| Deferred Outflows of Resources | (331,591) | (27,936) | (359,527) |
| Increase (Decrease) in Liabilities and Deferred Inflows of Resources: | | | |
| Accounts Payable | (450,822) | 91,136 | (359,686) |
| Net OPEB Liabilities | 83,138 | 55,074 | 138,212 |
| Net Pension Liability | 399,655 | 27,100 | 426,755 |
| Accrued Liabilities | 16,080 | 7,080 | 23,160 |
| Compensated Absences | (100,694) | 11,917 | (88,777) |
| Deferred Inflows of Resources | (205,701) | (18,278) | (223,979) |
| Total Adjustments | $ 2,489,332 | $ 979,750 | $ 3,469,082 |
| **Net Cash Provided by (Used for) Operating Activities** | $ 6,110,136 | $ 1,504,150 | $ 7,614,286 |
| **Schedule of non-cash capital and related financing activities:** | | | |
| Purchase of property, plant and equipment included in accounts and retainage payable | $ 107,800 | $ 71,643 | $ 179,443 |
| Donated capital assets during the fiscal year | 26,000 | - | 26,000 |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies.

### Financial Reporting Entity

The Washington County Service Authority, (the "Authority") was created pursuant to the Water and Sewer Authorities Act, Chapter 28, Title 15.1, Code of Virginia of 1950, as amended by the action of the Board of Supervisors of Washington County. The State Corporation Commission chartered the Authority on March 25, 1953, as the Goodson-Kinderhook Water Authority. Its name was changed to Washington County Service Authority in 1976. As presently chartered, the Authority is authorized to acquire, finance, construct, operate, and maintain one or more water systems; one or more sewer systems; one or more sewage disposal systems, or any combination thereof; and provide garbage and refuse collection and disposal systems in Washington County and counties adjacent thereto. The Authority does not currently provide garbage refuse collection and disposal services.

The Authority currently provides a full range of water services to the more densely populated areas of Washington County and to the Towns of Abingdon, Damascus and Glade Spring, Virginia. The Authority also provides water services to sections of the Town of Saltville, Virginia; the City of Bristol, Tennessee; Sullivan County, Tennessee; and Smyth County, Virginia. A seven-member board of commissioners who are appointed by the Board of Supervisors of Washington County governs the Authority.

The Authority currently provides sewer services to customers in the Emory-Meadowview, Glade Spring, Oak Park, Westwood, West Central, Virginia, Sinking Creek and Damascus sections and other small portions of Washington County, Virginia.

The accounting policies of the Authority relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The basic criterion for determining whether a legally separate organization should be included in the governmental unit's reporting entity is financial accountability and whether the nature and significance of the organization's relationship with the governmental unit are such that exclusion would cause the reporting entity financial statements to be misleading or incomplete. The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

### Basic Financial Statements

The financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

- Required supplementary information
  - Schedules related to OPEB funding progress
  - Schedules related to pension funding progress
  - Notes to Required Supplementary Information

Basis of Presentation

The Authority's funds are enterprise funds. Enterprise funds are proprietary funds used to account for business like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for sales and service. The Authority also recognizes as operating revenue the portion of tap fees intended to recover a portion of growth related expenses of connecting new customers to the system. Operating expenses for enterprise funds 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.

Proprietary Fund Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as charges to customers for water service and other revenue generated from operations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including gifts, and other revenue sources that are defined as nonoperating revenues by GASB.

Nonoperating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, and depreciation of contributed assets. All other expenses are classified as operating expenses.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liabilities 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 item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

### Net Position

For reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable 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 included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

### Inventory

The Authority maintains inventories of maintenance materials and supplies, including pipe and meters, for use in day-to-day operations. Inventories of materials and supplies are stated at the lower of cost (first-in, first-out) or market.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, Plant and Equipment

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

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

| | |
|---|---|
| Waterlines and sewer systems | 40 years |
| Buildings and improvements | 10 – 40 years |
| Machinery and equipment | 5 – 7 years |
| Office equipment | 5 – 10 years |

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these amounts.

### Compensated Absences

The Authority's employees earn vacation and sick pay based on their length of service. Vacation and sick pay may either be taken or accumulated and paid upon retirement or termination. Accumulation of vacation pay is limited to 30 days, or days accumulated. Sick pay, based on 25% of sick days accumulated, is paid upon retirement or termination or 50% is paid at 20 years of service. There is no limit on the number of sick days that may be accumulated for employees hired before January 1, 2014. Employees hired after January 1, 2014 may not accrue more than 480 hours of sick leave and none will be paid out upon retirement or termination.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the Authority considers their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted cash consisted of reserve accounts established as required by Rural Development bond covenants.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

### Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately $361,578 and $57,695 at June 30, 2020 for the water and sewer fund, respectively.

### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position.

### Reclassifications

Certain reclassifications have been made in the current year's financial statements. There was no effect on prior year combined net income or combined net position as a result of reclassifications.

### Advertising Costs

Advertising costs consist of various marketing expenses, including advertisements, and are expensed as incurred.

### Pensions

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

### Long-term Obligations

Long-term obligations are reported as liabilities in the Authority's statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

## NOTE 2 DEPOSITS AND INVESTMENTS

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.

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

### Credit Risk of Debt Securities

The Authority's rated debt investments as of June 30, 2020 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

| Rated Debt Investments | Fair Quality Ratings |
|---|---|
| | AAAm |
| LGIP | $ 449,396 |
| VML/VACO | 702,414 |
| SNAP | 9,275,648 |
| Total | $ 10,427,458 |

### Interest Rate Risk

The Authority invests funds in low risk investments backed by U.S. government agencies.

| Rated Debt Investments | Investment Maturities | |
|---|---|---|
| | Fair Value | < 1 year |
| LGIP | $ 449,396 | $ 449,396 |
| VML/VACO | 702,414 | 702,414 |
| SNAP | 9,275,648 | 9,275,648 |
| Total | $ 10,427,458 | $ 10,427,458 |

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. While the Authority does not have a policy regarding custodial credit risk, the Authority's investments at June 30, 2020 were held in the Authority's name by the custodial banks.

## NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

### Concentration of Credit Risk

At June 30, 2020 the Authority did not have any investments requiring concentration of credit risk disclosures that exceeded 5% of total investments.

### External Investment Pools

The value of the positions in the external investment pool (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP and SNAP are not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios. There are no withdrawal limitations or restrictions imposed on participants.

### Fair Value Measurements

Fair value of the position in the VML/VACO Pool is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at net asset value (NAV). The Authority is limited to two withdrawals per month.

## NOTE 3 CAPITAL ASSETS

| Water fund: | Beginning Balances, as restated | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 960,026 | $ 3,400 | $ - | $ 963,426 |
| Construction in Progress | 4,883,279 | 1,874,839 | 3,985,282 | 2,772,836 |
| Total capital assets, not being depreciated | $ 5,843,305 | $ 1,878,239 | $ 3,985,282 | $ 3,736,262 |
| Capital assets being depreciated: | | | | |
| Buildings, Improvements, Waterlines | $ 121,931,538 | $ 4,009,882 | $ - | $ 125,941,420 |
| Machinery and Equipment | 10,625,892 | 277,522 | 62,868 | 10,840,546 |
| Total capital assets, being depreciated | $ 132,557,430 | $ 4,287,404 | $ 62,868 | $ 136,781,966 |
| Accumulated depreciation: | | | | |
| Buildings, Improvements, Waterlines | $ 37,453,768 | $ 2,862,389 | $ - | $ 40,316,157 |
| Machinery and Equipment | 9,440,736 | 281,546 | 62,868 | 9,659,414 |
| Total accumulated depreciation | $ 46,894,504 | $ 3,143,935 | $ 62,868 | $ 49,975,571 |
| Total capital assets being depreciated, net | $ 85,662,926 | $ 1,143,469 | $ - | $ 86,806,395 |
| Total water fund | $ 91,506,231 | $ 3,021,708 | $ 3,985,282 | $ 90,542,657 |

## NOTE 3 CAPITAL ASSETS (Continued)

| **Sewer fund:** | Beginning Balances, as restated | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 272,865 | $ - | $ - | $ 272,865 |
| Construction in Progress | 618,092 | 737,546 | 367,335 | 988,303 |
| Total capital assets, not being depreciated | $ 890,957 | $ 737,546 | $ 367,335 | $ 1,261,168 |
| Capital assets being depreciated: | | | | |
| Buildings, Improvements, Waterlines | $ 29,334,149 | $ 85,994 | $ - | $ 29,420,143 |
| Machinery and Equipment | 1,039,229 | 59,838 | - | 1,099,067 |
| Total capital assets, being depreciated | $ 30,373,378 | $ 145,832 | $ - | $ 30,519,210 |
| Accumulated depreciation: | | | | |
| Buildings, Improvements, Waterlines | $ 9,312,851 | $ 727,405 | $ - | $ 10,040,256 |
| Machinery and Equipment | 835,679 | 103,772 | - | 939,451 |
| Total accumulated depreciation | $ 10,148,530 | $ 831,177 | $ - | $ 10,979,707 |
| Total capital assets being depreciated, net | $ 20,224,848 | $ (685,345) | $ - | $ 19,539,503 |
| Total sewer fund | $ 21,115,805 | $ 52,201 | $ 367,335 | $ 20,800,671 |

**NOTE 3 CAPITAL ASSETS (Continued)**

| Water Fund Construction in Progress | Beginning Balance, as restated | Additions | Transfers | Ending Balance |
|---|---|---|---|---|
| Abingdon Water Storage Tank | $ 107,921 | $ 66,911 | $ - | $ 174,832 |
| Galvanized Line Phase III | 1,083,695 | 26,918 | - | 1,110,613 |
| Mill Creek | 722,908 | 155,689 | - | 878,597 |
| Small projects | 16,875 | 34,160 | - | 51,035 |
| Southfork Intake - non-reimbursable | 21,820 | 7,132 | - | 28,952 |
| Southfork Intake - reimbursable | 237,570 | - | 237,570 | - |
| Mill Creek Plant Upgrade | - | 18,268 | - | 18,268 |
| Rich Valley West | 2,371,134 | 1,068,780 | 3,439,914 | - |
| Rattle Creek | 229,419 | 77,971 | 307,390 | - |
| Sugar Cove Rd | 7,755 | 387,795 | - | 395,550 |
| Hidden Valley II | 57,329 | 15,223 | - | 72,552 |
| Mendota-Archery Range-Mary's Ch | 26,445 | 750 | - | 27,195 |
| Mill Creek #2 | 408 | - | 408 | - |
| VDOT RT 58 16383 BETTERMENT | - | 12,057 | - | 12,057 |
| Town of Saltville Interconnection | - | 3,185 | - | 3,185 |
| Total water fund | $ 4,883,279 | $ 1,874,839 | $ 3,985,282 | $ 2,772,836 |

| Sewer Fund Construction in Progress | Beginning Balance, as restated | Additions | Transfers | Ending Balance |
|---|---|---|---|---|
| Meadowview Emory | $ 85,994 | $ - | $ 85,994 | $ - |
| Western Washington Co Sewer | 281,341 | - | 281,341 | - |
| Small Projects | 42,433 | 344 | - | 42,777 |
| Exit 13 Force Main | - | 926 | - | 926 |
| Lee Hwy Sewer Study | 153,779 | 15 | - | 153,794 |
| Lee Hwy Corridor | 54,545 | 478,675 | - | 533,220 |
| Damascus WWTP | - | 13,279 | - | 13,279 |
| Hall Creek Improvements | - | 244,307 | - | 244,307 |
| Total sewer fund | $ 618,092 | $ 737,546 | $ 367,335 | $ 988,303 |

## NOTE 4 LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2020:

| | Beginning Balances | Increases/ Issuances | Decreases/ Retirements | Ending Balances |
|---|---|---|---|---|
| **Water fund:** | | | | |
| Bonds payable | $ 9,974,641 | $ 8,404,957 | $ 699,996 | $ 17,679,602 |
| Bonds payable premium | - | 1,500,480 | - | 1,500,480 |
| Bonds payable from direct borrowings | 50,506,050 | - | 1,097,688 | 49,408,362 |
| Compensated absences | 980,345 | 95,375 | 196,069 | 879,651 |
| Net pension (asset) liability | (337,445) | 1,572,526 | 1,172,871 | 62,210 |
| Net OPEB liabilities | 1,613,134 | 308,993 | 225,855 | 1,696,272 |
| Total water fund | $ 62,736,725 | $ 11,882,331 | $ 3,392,479 | $ 71,226,577 |

| | Beginning Balances | Increases/ Issuances | Decreases/ Retirements | Ending Balances |
|---|---|---|---|---|
| **Sewer fund:** | | | | |
| Bonds payable | $ 5,827,740 | $ - | $ 345,298 | $ 5,482,442 |
| Bonds payable from direct borrowings | 3,678,732 | - | 82,950 | 3,595,782 |
| Compensated absences | 26,230 | 17,163 | 5,246 | 38,147 |
| Net pension (asset) liability | (22,169) | 124,667 | 97,567 | 4,931 |
| Net OPEB liabilities | 87,090 | 70,165 | 15,091 | 142,164 |
| Total sewer fund | $ 9,597,623 | $ 211,995 | $ 546,152 | $ 9,263,466 |

The following is a summary of principal and interest payment requirements to amortize long-term debt:

| | Water Fund | | Water Fund | | Sewer Fund | | Sewer Fund | |
|---|---|---|---|---|---|---|---|---|
| Fiscal | Bonds Payable | | Bonds Payable - Direct Borrowings | | Bonds Payable | | Bonds Payable - Direct Borrowings | |
| Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | $ 1,032,594 | $ 577,190 | $ 1,127,759 | $ 1,140,442 | $ 352,077 | $ 108,976 | $ 85,313 | $ 96,066 |
| 2022 | 1,113,760 | 554,409 | 1,154,153 | 1,114,116 | 359,101 | 101,952 | 87,752 | 93,627 |
| 2023 | 1,099,055 | 516,825 | 1,181,126 | 1,087,214 | 366,379 | 94,675 | 90,270 | 91,109 |
| 2024 | 1,134,771 | 480,355 | 1,192,991 | 1,045,570 | 373,920 | 87,133 | 92,869 | 88,511 |
| 2025 | 1,170,914 | 442,451 | 1,252,698 | 1,046,401 | 381,735 | 79,317 | 95,551 | 85,827 |
| 2026-2030 | 5,678,719 | 1,609,928 | 6,632,277 | 4,712,039 | 2,036,242 | 269,026 | 521,174 | 385,726 |
| 2031-2035 | 4,453,829 | 2,649,956 | 7,444,661 | 3,901,660 | 1,448,936 | 45,164 | 602,797 | 304,104 |
| 2036-2040 | 875,701 | 237,649 | 8,356,799 | 3,012,072 | 248,112 | - | 699,073 | 207,826 |
| 2041-2045 | 887,957 | 119,145 | 9,380,998 | 1,969,734 | - | - | 563,232 | 116,495 |
| 2046-2050 | 430,650 | 27,935 | 9,787,519 | 832,849 | - | - | 585,384 | 53,495 |
| 2051-2055 | 7,767 | 98 | 2,093,054 | 112,787 | - | - | 172,367 | 2,843 |
| 2056-2060 | - | - | 105,685 | 3,712 | - | - | - | - |
| Total | $ 17,885,717 | $ 7,215,941 | $ 49,709,720 | $ 19,978,596 | $ 5,566,502 | $ 786,243 | $ 3,595,782 | $ 1,525,629 |
| Less amounts not yet drawn down | (206,115) | - | (301,358) | - | (84,060) | - | - | - |
| Payable Within One Year | (1,032,594) | (577,190) | (1,127,759) | (1,140,442) | (352,077) | (108,976) | (85,313) | (96,066) |
| Long-Term Amounts Due After One Year | $ 16,647,008 | $ 6,638,751 | $ 48,280,603 | $ 18,838,154 | $ 5,130,365 | $ 677,267 | $ 3,510,469 | $ 1,429,563 |

## NOTE 4 LONG-TERM OBLIGATIONS (Continued)

Details of the Authority's long-term obligations at June 30, 2020 are as follows:

| | Interest Rates | Issue Date | Maturity Date | Original Amount | Balance at 6/30/2020 | Due Within One Year |
|---|---|---|---|---|---|---|
| **Water Fund:** | | | | | | |
| RD WTP 91-19 | 2.50% | 5/27/2010 | 5/27/2050 | $ 9,000,000 | $ 7,767,524 | $ 176,097 |
| RD Route 58 Loan No. 20 | 2.38% | 7/29/2010 | 7/29/2050 | 5,360,000 | 4,566,685 | 107,543 |
| RD Whites Mill Loan No. 21 | 2.25% | 12/1/2010 | 12/1/2050 | 3,000,000 | 2,416,610 | 64,002 |
| RD WTP 91-20 | 2.25% | 12/1/2010 | 12/1/2050 | 9,000,000 | 7,724,170 | 180,237 |
| RD WTP 91-18 | 2.25% | 12/1/2010 | 12/1/2050 | 8,580,000 | 7,202,924 | 176,414 |
| RD Galvanized Line 1-1 | 2.25% | 12/15/2010 | 12/15/2050 | 4,000,000 | 3,453,294 | 80,081 |
| RD Galvanized Line 1-2 | 2.25% | 12/15/2010 | 12/15/2050 | 6,000,000 | 5,104,916 | 121,820 |
| RD Galvanized Line 2-1 | 2.38% | 12/15/2010 | 12/15/2050 | 6,000,000 | 5,592,918 | 108,823 |
| RD Galvanized Line 2-2 | 2.38% | 12/15/2010 | 12/15/2050 | 4,000,000 | 3,742,801 | 72,208 |
| RD Loan #30a (2017C) | 2.00% | 9/26/2017 | 9/26/2057 | 1,327,455 | 1,809,398 | 34,361 |
| RD Loan Number 34 | 2.00% | 9/26/2017 | 9/26/2057 | 341,000 | 27,122 | 6,173 |
| Total Bonds Payable from Direct Borrowings | | | | | $ 49,408,362 | $ 1,127,759 |
| EPA DW RLF Loan #WSL-18-98 | 2.00% | 9/22/2000 | 1/1/2026 | $ 231,900 | $ 62,306 | $ 5,387 |
| EPA DW RLF Loan #WSL-11-99 | 0.00% | 8/31/2001 | 3/1/2032 | 83,388 | 33,348 | 2,778 |
| EPA DW RLF Loan #WSL-17-99 | 0.00% | 9/25/2001 | 8/1/2032 | 2,248,791 | 929,996 | 74,399 |
| Series 2002A PLBP #2 | 3.10% | 6/6/2002 | 4/1/2022 | 640,000 | 95,000 | 45,000 |
| DWSRF Hanger Line | 0.00% | 9/1/2002 | 10/1/2022 | 395,215 | 171,298 | 13,174 |
| DWSRF Providence Road | 0.00% | 6/30/2003 | 9/1/2033 | 153,114 | 68,779 | 5,094 |
| DWSRF Goldenview Drive | 0.00% | 10/15/2003 | 10/15/2034 | 382,195 | 171,988 | 12,740 |
| Blackhollow Road 15-04 | 3.00% | 6/30/2005 | 1/1/2025 | 545,503 | 187,091 | 31,777 |
| DWSRF Logan Creek | 3.00% | 11/26/2005 | 11/1/2026 | 193,021 | 77,104 | 10,915 |
| EPA DW RLF Loan #WSL-03-06 | 3.00% | 1/18/2007 | 4/1/2027 | 891,158 | 380,667 | 49,645 |
| EPA DW RLF Loan #WSL-24-06 | 3.00% | 3/1/2007 | 8/1/2027 | 156,290 | 71,018 | 8,578 |
| Mendota Road Phase 1 | 3.00% | 12/2/2008 | 12/1/2029 | 231,380 | 123,473 | 12,143 |
| Walker Mtn Road/Lime Hill | 3.05% | 12/2/2008 | 12/1/2029 | 690,012 | 362,599 | 36,389 |
| VRA Loan WSL #07-09 | 2.45% | 2/9/2010 | 2/1/2031 | 647,003 | 386,120 | 32,673 |
| Tumbling Creek | 3.00% | 2/11/2010 | 2/10/2031 | 62,563 | 34,284 | 3,321 |
| VRA Loan WSL #19-08 | 3.05% | 12/9/2010 | 7/1/2050 | 802,670 | 509,898 | 19,681 |
| Reedy Creek WSL 23-10 | 2.25% | 12/9/2010 | 7/1/2050 | 3,259,531 | 1,974,949 | 200,477 |
| VRA Loan WSL #22-06 | 3.00% | 12/28/2010 | 2/1/2031 | 304,774 | 193,265 | 15,072 |
| Nordyke WSL #03-11 | 3.00% | 12/4/2013 | 7/1/2044 | 387,829 | 317,516 | 5,189 |
| VRA Rich Valley Whites Mill WSL #05-11 | 3.00% | 12/4/2013 | 8/1/2044 | 1,394,102 | 1,252,037 | 34,239 |
| Tumbling Creek South WSL #04-11 | 3.00% | 5/21/2014 | 8/1/2044 | 72,911 | 64,592 | 1,818 |
| Hidden Valley Rd WSL 003-14 | 2.00% | 5/28/2015 | 1/1/2046 | 296,475 | 262,251 | 4,054 |
| Childress Hollow | 2.50% | 12/31/2015 | 10/1/2046 | 220,172 | 174,571 | 6,270 |
| Haskell Station | 2.00% | 4/20/2017 | 10/1/2047 | 114,009 | 102,187 | 2,820 |
| WSL-006-18 | 2.50% | 4/11/2019 | 3/1/2049 | 164,780 | 108,642 | 5,246 |
| WSL-002-18 | 2.50% | 4/11/2019 | 3/1/2049 | 1,663,900 | 1,663,900 | 38,715 |
| WSL-004-18 - Sugar Cove Road | 2.50% | 3/5/2020 | 10/1/2050 | 326,840 | 120,723 | - |
| VPFP 2019C | 2.25% | 11/20/2019 | 11/1/2034 | 2,310,000 | 2,310,000 | 105,000 |
| VPFP 2019C | 4.00% | 11/20/2019 | 11/1/2034 | 5,470,000 | 5,470,000 | 250,000 |
| Subtotal Bonds Payable | | | | | $ 17,679,602 | $ 1,032,594 |
| Bond premium - VPFP 2019C | N/A | N/A | N/A | N/A | 1,500,480 | 202,877 |
| Total Bonds Payable with Premiums | | | | | $ 19,180,082 | $ 1,235,471 |
| Compensated Absences | N/A | N/A | N/A | N/A | $ 879,651 | $ 175,930 |
| Net Pension (Asset) Liability | N/A | N/A | N/A | N/A | 62,210 | - |
| Net OPEB Liabilities | N/A | N/A | N/A | N/A | 1,696,272 | - |
| Total Water Fund | | | | | $ 71,226,577 | $ 2,539,160 |

## NOTE 4 LONG-TERM OBLIGATIONS (Continued)

Details of the Authority's long-term obligations at June 30, 2020 are as follows:

| | Interest Rates | Issue Date | Maturity Date | Original Amount | Balance at 6/30/2020 | Due Within One Year |
|---|---|---|---|---|---|---|
| **Sewer Fund:** | | | | | | |
| Exit 13 P1 - Loan 1 91-14 | 2.25% | 12/15/2011 | 12/15/2051 | $ 1,579,000 | $ 1,394,028 | $ 30,919 |
| Exit 13 P1 - Loan 1 91-28 | 2.25% | 12/15/2011 | 12/15/2051 | 1,677,000 | 1,479,380 | 32,858 |
| Damascus | 4.50% | 8/15/2012 | 2/15/2042 | 973,000 | 722,374 | 21,536 |
| Total Bonds Payable from Direct Borrowings | | | | | $ 3,595,782 | $ 85,313 |
| 2008 Series Refunding Bond | 3.90% | 5/6/2008 | 12/15/2032 | $ 4,100,000 | $ 2,555,475 | $ 162,446 |
| Exit 13 P1 Force Main | 1.00% | 8/30/2012 | 4/1/2033 | 1,383,334 | 948,365 | 68,661 |
| VRA 2017B | 0.00% | 8/16/2017 | 6/1/2038 | 1,171,550 | 970,334 | 58,578 |
| Exit Phase IIA | 0.00% | 10/11/2016 | 5/1/2037 | 1,247,843 | 1,008,268 | 62,392 |
| Total Bonds Payable | | | | | $ 5,482,442 | $ 352,077 |
| Compensated Absences | N/A | N/A | N/A | N/A | $ 38,147 | $ 7,629 |
| Net Pension (Asset) Liability | N/A | N/A | N/A | N/A | 4,931 | - |
| Net OPEB Liabilities | N/A | N/A | N/A | N/A | 142,164 | - |
| Total Sewer Fund | | | | | $ 9,263,466 | $ 445,019 |

In the event of default, the lender may declare the entire unpaid principal and interest on the bonds payable as due and payable. The bonds payable also have requirements that net revenues available for debt service will equal at least 115% of the amount required during the current fiscal year to pay the principal and interest of all parity bonds. The Authority is considered to be in compliance with the aforementioned covenant.

Bonds payable from direct borrowings have reserve requirements whereby 10% of the monthly payment(s) must be accumulated until a year's payments has been established for each individual borrowing. The Authority is considered to be in compliance with the aforementioned covenant.

All bonds payable issuances are revenues bonds and are collateralized by the underlying revenue stream.

## NOTE 5 PENSION PLAN

### *Plan Description*

All full-time, salaried permanent employees of the Washington County Service 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 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 5 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. 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. 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 | 33 |
| Inactive members: | |
| Vested inactive members | 7 |
| Non-vested inactive members | 6 |
| Inactive members active elsewhere in VRS | 9 |
| Total inactive members | 22 |
| Active members | 73 |
| Total covered employees | 128 |

## NOTE 5 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 Washington County Service Authority's contractually required employer contribution rate for the year ended June 30, 2020 was 3.94% 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 Washington County Service Authority were $137,738 and $143,910 for the years ended June 30, 2020 and June 30, 2019, respectively.

### *Net Pension Liability*

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

### *Actuarial Assumptions – General Employees*

The total pension liability for General Employees in the Washington County Service 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 | 2.50% |
| Salary increases, including inflation | 3.50% – 5.35% |
| Investment rate of return | 6.75%, net of pension plan 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 pension liabilities.

## NOTE 5 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 rate from 7.00% to 6.75% |

## NOTE 5 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 - 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 40$^{th}$ percentile 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 5 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 | $ 13,245,116 | $ 13,604,730 | $ (359,614) |
| Changes for the year: | | | |
| Service cost | $ 334,451 | $ - | $ 334,451 |
| Interest | 913,738 | - | 913,738 |
| Differences between expected and actual experience | (29,684) | - | (29,684) |
| Changes in assumptions | 439,587 | - | 439,587 |
| Contributions - employer | - | 143,339 | (143,339) |
| Contributions - employee | - | 184,191 | (184,191) |
| Net investment income | - | 913,224 | (913,224) |
| Benefit payments, including refunds of employees contributions | (383,423) | (383,423) | - |
| Administrative expenses | - | (8,840) | 8,840 |
| Other changes | - | (577) | 577 |
| Net changes | $ 1,274,669 | $ 847,914 | $ 426,755 |
| Balances at June 30, 2019 | $ 14,519,785 | $ 14,452,644 | $ 67,141 |

## NOTE 5 PENSION PLAN (Continued)

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

The following presents the net pension liability (asset) of the Washington County Service Authority using the discount rate of 6.75%, as well as what the Washington County Service 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:

| | Rate | | |
|---|---|---|---|
| | 1% Decrease | Current Discount | 1% Increase |
| | (5.75%) | (6.75%) | (7.75%) |
| Washington County Service Authority's Net Pension Liability (Asset) | $ 2,021,518 | $ 67,141 | $ (1,496,752) |

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

For the year ended June 30, 2020, the Washington County Service Authority recognized pension expense of $18,295. At June 30, 2020, the Washington County Service 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 | $ - | $ 374,530 |
| Change in proportionate share | 10,165 | 10,165 |
| Change in assumptions | 344,025 | 87,060 |
| Net difference between projected and actual earnings on pension plan investments | - | 124,758 |
| Employer contributions subsequent to the measurement date | 137,738 | - |
| Total | $ 491,928 | $ 596,513 |

## NOTE 5 PENSION PLAN (Continued)

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

$137,738 reported as deferred outflows of resources related to pensions resulting from the Washington County Service 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 | $ | (145,655) |
| 2022 | | (229,019) |
| 2023 | | 71,520 |
| 2024 | | 60,831 |

### *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 6 OTHER POSTEMPLOYMENT BENEFITS – HEALTH INSURANCE

In addition to the pension benefits described in Note 5, the Authority administers a single-employer defined benefit healthcare plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the Authority's pension plan. The plan does not issue a publicly available financial report.

### *Benefits Provided*

A retiree, eligible for post-retirement medical coverage, is defined as a full-time employee who retires directly from the Authority and is eligible to receive an early or regular retirement benefit from VRS. Employees applying for early or regular retirement are eligible to continue participation in the Retiree Health Plan sponsored by the Authority. Employees at the Authority are allowed to stay on the plan until they reach the age of 65. The employee pays 100% of the required premium.

### *Plan Membership*

At June 30, 2020 (measurement date), the following employees were covered by the benefit terms:

| | |
|---|---|
| Total active employees with coverage | 70 |
| Total retirees with coverage | 3 |
| Total | 73 |

### *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. For fiscal year 2020, the Authority did not make contributions for premiums or prefunding amounts.

### *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 that date.

## NOTE 6 OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE (Continued)

### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.30% |
| Salary Increases | 2.30% |
| Discount Rate | 2.45% |

Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

### *Discount Rate*

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is based on the 20-year tax exempt municipal bond yield. The final equivalent single discount rate used for this year's valuation is 2.45% as of the end of the fiscal year with the expectation that the Authority will continue contributing the Actuarially Determined Contribution and paying the pay-go cost.

*Changes in Total OPEB Liability*

| | | Total OPEB Liability |
|---|---|---|
| Balances at June 30, 2019 | $ | 1,411,224 |
| Changes for the year: | | |
| Service cost | $ | 47,476 |
| Interest | | 51,054 |
| Effect of Economic/Demographic Gains or Losses | | (139,909) |
| Effect of Assumption Changes or Inputs | | 154,854 |
| Net changes | $ | 113,475 |
| Balances at June 30, 2020 | $ | 1,524,699 |

### *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 (1.45%) or one percentage point higher (3.45%) than the current discount rate:

| Rates | | |
|---|---|---|
| 1% Decrease (1.45%) | Current Discount Rate (2.45%) | 1% Increase (3.45%) |
| $ 1,697,122 | $ 1,524,699 | $ 1,377,074 |

## NOTE 6 OTHER POSTEMPLOYMENT BENEFITS – HEALTH INSURANCE (Continued)

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

The following presents the total OPEB liability of the Liability, 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 or one percentage point higher than the current healthcare cost trend rates:

| | Rates | |
|---|---|---|
| 1% Decrease | Healthcare Cost Trend | 1% Increase |
| $ 1,353,600 | $ 1,524,699 | $ 1,726,856 |

### *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 $113,476. At June 30, 2020, the Authority reported no deferred outflows of resources and deferred inflows of resources related to OPEB.

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

## NOTE 7 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 7 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 GLI Plan from the entity were $19,766 and $19,729 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 of $313,737 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 0.01928% as compared to 0.01902% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of $7,241. 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.

## NOTE 7 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 GLI Plan OPEB (Continued)*

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 | $ 20,865 | $ 4,069 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 6,444 |
| Change in assumptions | 19,808 | 9,461 |
| Changes in proportion | 3,469 | 2,326 |
| Employer contributions subsequent to the measurement date | 19,766 | - |
| Total | $ 63,908 | $ 22,300 |

$19,766 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 | $ 1,101 |
| 2022 | 1,101 |
| 2023 | 3,831 |
| 2024 | 6,692 |
| 2025 | 7,106 |
| Thereafter | 2,011 |

## NOTE 7 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. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be reference 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.

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

## NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (Continued)

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered 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 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 |
| Employers' Net GLI OPEB Liability (Asset) | $ 1,627,266 |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% |

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

## NOTE 7 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 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 7 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%) |
| Washington County Service Authority's proportionate share of the Group Life Insurance Plan Net OPEB Liability | $ 412,164 | $ 313,737 | $ 233,916 |

### *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.

## NOTE 8 SUMMARY OF OPEB BALANCES

| | Water Fund | | | | Sewer Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Deferred Outflows | Deferred Inflows | Net OPEB Liability | OPEB Expense | Deferred Outflows | Deferred Inflows | Net OPEB Liability | OPEB Expense |
| Authority Health Insurance Plan (Note 6) | $ - | $ - | $ 1,405,582 | $ 104,611 | $ - | $ - | $ 119,117 | $ 8,865 |
| Group Life Insurance Plan (Note 7) | 59,121 | 20,662 | 290,690 | 6,709 | 4,787 | 1,638 | 23,047 | 532 |
| Totals | $ 59,121 | $ 20,662 | $ 1,696,272 | $ 111,320 | $ 4,787 | $ 1,638 | $ 142,164 | $ 9,397 |

## NOTE 9 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Commonwealth to form the Virginia Municipal League Self Insurance Risk Pool, 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 insurance. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three years. The Authority has purchased its general liability and public employees' liability insurance through other commercial insurance providers.

## NOTE 10 SETTLEMENT RECEIVABLE

In 2013, the Authority settled pending litigation and entered into a settlement agreement for the receipt of $600,000 over 8 years. The agreement was subsequently amended and $134,788 of same was forgiven during the current fiscal year. As of June 30, 2020, no amounts are due under the amended agreement.

## NOTE 11 COMMITMENTS AND CONTINGENCIES

At June 30, 2020, the Authority had several major projects underway, which are presented in the financial statements as construction in progress. Presented below is a list of major projects, contract amounts, expenditures to date, and balances of contracts remaining:

| Project | Contract Amount | Expenditures to Date | Balance of Contract |
|---|---|---|---|
| Hall Creek Improvements | $ 223,500 | $ 212,325 | $ 11,175 |
| Sugar Cove Rd - McFall Excavating | 429,571 | 360,143 | 69,428 |

## NOTE 12 RESTATEMENT OF BEGINNING BALANCES

| | Water Fund | Sewer Fund |
|---|---|---|
| Net Position, as previously reported | $ 43,246,612 | $ 17,114,283 |
| To expense prior construction in progress | (118,728) | (260,207) |
| Net Position, as restated | $ 43,127,884 | $ 16,854,076 |

## NOTE 13 SUBSEQUENT EVENTS

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. Washington County Service Authority is not able to estimate the effects of the COVID-19 pandemic for fiscal year 2021.

## NOTE 14 UPCOMING PRONOUNCEMENTS

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, *Leases*, requires 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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No, 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

**NOTE 14 UPCOMING PRONOUNCEMENTS (Continued)**

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement. No 32*, (1) increases consistency and comparability related to reporting of fiduciary component units in certain circumstances; (2) mitigates costs associated with the reporting of certain plans as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans. The effective dates differ based on the requirements of the Statement, ranging from June 2020 to reporting periods beginning after June 15, 2021.

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

# Required Supplementary Information

Exhibit 4

**Washington County Service Authority**
**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios**
**Pension Plan**
**For the Measurement Dates of June 30, 2014 through June 30, 2019**

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Total Pension Liability (Asset)** | | | | | | |
| Service cost | $ 334,451 | $ 322,487 | $ 345,698 | $ 348,934 | $ 344,820 | $ 303,720 |
| Interest | 913,738 | 865,463 | 864,854 | 817,665 | 770,771 | 726,494 |
| Changes of assumptions | 439,587 | - | (221,000) | - | - | - |
| Difference between expected and actual experience | (29,684) | (119,256) | (607,671) | (135,635) | (102,805) | - |
| Benefit payments | (383,423) | (374,661) | (371,704) | (341,979) | (343,770) | (451,577) |
| Net change in pension liability | $ 1,274,669 | $ 694,033 | $ 10,177 | $ 688,985 | $ 669,016 | $ 578,637 |
| Total pension liability (asset) - beginning | 13,245,116 | 12,551,083 | 12,540,906 | 11,851,921 | 11,182,905 | 10,604,268 |
| Total pension liability (asset) - ending (a) | $ 14,519,785 | $ 13,245,116 | $ 12,551,083 | $ 12,540,906 | $ 11,851,921 | $ 11,182,905 |
| **Plan Fiduciary Net Position** | | | | | | |
| Contributions - employer | $ 143,339 | $ 227,139 | $ 214,674 | $ 258,598 | $ 260,877 | $ 239,588 |
| Contributions - employee | 184,191 | 177,412 | 170,627 | 170,269 | 172,019 | 164,990 |
| Net investment income | 913,224 | 938,581 | 1,381,932 | 197,137 | 481,447 | 1,419,775 |
| Benefit payments | (383,423) | (374,661) | (371,704) | (341,979) | (343,770) | (451,577) |
| Administrator charges | (8,840) | (7,918) | (7,811) | (6,717) | (6,403) | (7,647) |
| Other | (577) | (844) | (1,236) | (82) | (103) | 75 |
| Net change in plan fiduciary net position | $ 847,914 | $ 959,709 | $ 1,386,482 | $ 277,226 | $ 564,067 | $ 1,365,204 |
| Plan Fiduciary Net Position - beginning | 13,604,730 | 12,645,021 | 11,258,539 | 10,981,313 | 10,417,246 | 9,052,042 |
| Plan Fiduciary Net Position - ending (b) | $ 14,452,644 | $ 13,604,730 | $ 12,645,021 | $ 11,258,539 | $ 10,981,313 | $ 10,417,246 |
| Authority's net pension liability (asset) - ending (a) - (b) | $ 67,141 | $ (359,614) | $ (93,938) | $ 1,282,367 | $ 870,608 | $ 765,659 |
| Plan fiduciary net position as a percentage of the total pension liability | 99.54% | 102.72% | 100.75% | 89.77% | 92.65% | 93.15% |
| Covered payroll | $ 3,794,010 | $ 3,617,228 | $ 3,462,831 | $ 3,428,140 | $ 3,446,371 | $ 3,300,771 |
| Authority's net pension liability (asset) as a percentage of covered-employee payroll | 1.77% | -9.94% | -2.71% | 37.41% | 25.26% | 23.20% |

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.

**Exhibit 5**

**Washington County Service Authority**
**Schedule of Employer Contributions**
**Pension Plan**
**For the Years Ended June 30, 2011 through June 30, 2020**

| Date | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) (1) - (2) | Employer's Covered Employee Payroll | Contributions as a % of Covered Employee Payroll (2)/(4) |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| 2020 | $ 137,738 | $ 137,738 | $ - | $ 3,804,567 | 3.62% |
| 2019 | 143,910 | 143,910 | - | 3,794,010 | 3.79% |
| 2018 | 223,064 | 223,064 | - | 3,617,228 | 6.17% |
| 2017 | 214,905 | 214,905 | - | 3,462,831 | 6.21% |
| 2016 | 258,598 | 258,598 | - | 3,428,140 | 7.54% |
| 2015 | 260,877 | 260,877 | - | 3,446,371 | 7.57% |
| 2014 | 239,579 | 239,579 | - | 3,300,771 | 7.26% |
| 2013 | 232,703 | 232,703 | - | 3,205,279 | 7.26% |
| 2012 | 134,090 | 134,090 | - | 2,889,888 | 4.64% |
| 2011 | 132,113 | 132,113 | - | 2,847,258 | 4.64% |

Contributions are from the Authority's records.

**Washington County Service Authority**
**Note to Required Supplementary Information**
**Pension Plan**
**For the Year Ended June 30, 2020**

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% |

Exhibit 7

**Washington 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 June 30, 2020**

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Total OPEB liability** | | | |
| Service cost | $ 47,476 | $ 47,476 | $ 47,476 |
| Interest | 51,054 | 37,582 | 14,674 |
| Effect of Economic/Demographic Gains or Losses | (139,909) | 22,109 | - |
| Effect of Assumptions Changes or Inputs | 154,854 | (151,731) | (94,280) |
| Other adjustments | - | - | 57,233 |
| Benefit payments | | | |
| **Net change in total OPEB liability** | $ 113,475 | $ (44,564) | $ 25,103 |
| **Total OPEB liability - beginning** | 1,411,224 | 1,455,788 | 1,430,685 |
| **Total OPEB liability - ending** | $ 1,524,699 | $ 1,411,224 | $ 1,455,788 |
| **Covered payroll** | N/A | N/A | N/A |
| **Authority's total OPEB liability (asset) 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.

**Washington County Service Authority**
**Notes to Required Supplementary Information - Health Insurance**
**For the Year Ended June 30, 2020**

| | |
|---|---|
| Valuation Date: | 6/30/2020 |
| 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 |
| Discount Rate | 2.45% |
| Inflation | 2.30% |
| Healthcare Trend Rate | The medical trend rate is 4.9% for year one, adjusted to 4.8% for year 2, 4.7% for years 3-4, 4.6% for year 5, 4.5% for year 6, 4.4% for year 7, with an ultimate rate of 4.3%. The pharmacy trend rate is 5.9% adjusted to 4.8% in year 2, 4.7% for year 3-4, 4.6% for year 5, 4.5% for year 6, 4.4% for year 7, with an ultimate rate of 4.3% thereafter. The dental trend rate is 3.5% for years 1-2, adjusted to an ultimate rate of 3.00% thereafter. The vision trend rate is 3.00% for year 1 and thereafter. |
| Salary Increase Rates | 2.30% |
| Retirement Age | The average age at retirement is 62 |
| Mortality Rates | Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years. |

**Washington County Service Authority**
Schedule of Authority's Share of Net OPEB Liability
Group Life Insurance (GLI) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2019

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---|---|---|---|---|---|
| 2019 | 0.01928% | $ 313,737 | $ 3,794,010 | 8.27% | 52.00% |
| 2018 | 0.01902% | 289,000 | 3,617,228 | 7.99% | 51.22% |
| 2017 | 0.01880% | 283,000 | 3,468,537 | 8.16% | 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.

**Exhibit 10**

**Washington County Service Authority**
Schedule of Employer Contributions
Group Life Insurance (GLI) 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 | $ 19,766 | $ 19,766 | $ - | $ 3,800,998 | 0.52% |
| 2019 | 19,729 | 19,729 | - | 3,794,010 | 0.52% |
| 2018 | 18,808 | 18,808 | - | 3,617,228 | 0.52% |
| 2017 | 18,036 | 18,036 | - | 3,468,537 | 0.52% |
| 2016 | 16,442 | 16,442 | - | 3,425,434 | 0.48% |
| 2015 | 16,543 | 16,543 | - | 3,446,371 | 0.48% |
| 2014 | 15,844 | 15,844 | - | 3,300,771 | 0.48% |
| 2013 | 15,385 | 15,385 | - | 3,205,280 | 0.48% |
| 2012 | 8,092 | 8,092 | - | 2,889,888 | 0.28% |
| 2011 | 7,989 | 7,989 | - | 2,853,266 | 0.28% |

**Washington County Service Authority**
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2020

**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% |

# Compliance Section

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

**To the Board of Directors**
**Washington County Service Authority**
**Abingdon, 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 business-type activities of Washington County Service Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Washington County Service Authority's basic financial statements and have issued our report thereon dated February 18, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Washington 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 Washington County Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Washington 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington 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*.

## Washington County Service Authority's Response to Findings

Washington County Service Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Washington County Service Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## 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

Blacksburg, Virginia
February 18, 2021

**Washington County Service Authority**
Schedule of Findings and Responses
For The Year Ended June 30, 2020

## Section I - Summary of Auditors' Results

***Financial Statements***

| | |
|---|---|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | Yes |
| Noncompliance material to financial statements noted? | No |

## Section II - Financial Statement Findings

### 2020-001

| | |
|---|---|
| Criteria: | An auditee should have controls in place to prepare financial statements in accordance with current reporting standards. Identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a significant deficiency exists. |
| Condition: | The Authority's financial statements as provided required significant proposed adjustments to ensure such statements complied with Generally Accepted Accounting Principles. |
| Cause of Condition: | The Authority failed to identify all year end accounting adjustments necessary for the books to be prepared in accordance with current reporting standards. |
| Effect of Condition: | There is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected by the Authority's internal controls over financial reporting. |
| Recommendation: | The Authority should reconcile accounts payable to the subledger on a monthly basis and review the proposed audit adjustments to ensure that same are incorporated in the trial balance provided for audit in the future. |
| Management's Response: | Management agrees and has established a process for reconciling accounts payable on a routine basis and will review other proposed adjustments to be incorporated in the Authority's trial balance. |

## Section III - Status of Prior Audit Findings and Responses

Finding 2019-001 is a continued finding in the current year as finding 2020-001.