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

FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019

MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

INTRODUCTORY SECTION

MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2019

DIRECTORS

M. Todd King – Chair
Darrell O. Sheppard – Vice Chair
Mary W. Biggs – Secretary/Treasurer

Sara R. Bohn	Steve R. Fijalkowski
April N. DeMotts	Christopher A. Tuck

OFFICIALS

Robert C. Fronk	Director
Martin M. McMahon	Attorney

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Montgomery County Public Service Authority (the "Authority"), a component unit of Montgomery County, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

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 and each major fund of the Authority, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Authority's 2018 financial statements, and our report dated November 30, 2018 expressed an unmodified opinion on those financial statements. The 2018 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, the defined benefit pension plan schedules required by GASB 68, and the other postemployment benefit schedules required by GASB 75 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 15, 2019

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITIES

STATEMENT OF NET POSITION
June 30, 2019

	2019	(For Comparative Purposes Only) 2018
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 2,847,957	$ 3,073,890
Accounts receivable, net (Note 3)	721,501	658,637
Due from County (Note 11)	15,436	18,202
Inventories	38,170	31,630
Total current assets	3,623,064	3,782,359
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	77,720	74,520
Capital assets: (Note 4)		
Nondepreciable	1,476,399	1,246,524
Depreciable, net	14,726,849	15,419,481
Total noncurrent assets	16,280,968	16,740,525
Total assets	19,904,032	20,522,884
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 6)	89,841	89,373
Deferred outflows related to other postemployment benefits (Notes 7 and 8)	14,255	4,258
	104,096	93,631
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	346,743	255,660
Accrued payroll and related liabilities	52,527	46,779
Accrued interest payable	4,823	5,129
Due to County (Note 11)	11,867	5,145
Current portion of noncurrent liabilities (Note 5)	460,252	438,834
Total current liabilities	876,212	751,547
Noncurrent liabilities:		
Net pension liabililty (Note 6)	440,068	513,482
Net other postemployment benefit liability (Notes 7 and 8)	294,557	274,730
Customer deposits	77,720	74,520
Due in more than one year (Note 5)	5,520,116	5,850,878
Total noncurrent liabilities	6,332,461	6,713,610
Total liabilities	7,208,673	7,465,157
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 6)	107,428	107,414
Deferred inflows related to other postemployment benefits (Notes 7 and 8)	12,933	14,856
	120,361	122,270
NET POSITION		
Net investment in capital assets	11,569,705	11,741,294
Unrestricted	1,109,389	1,287,794
Total net position	$ 12,679,094	$ 13,029,088

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

EXHIBIT 2

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITIES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2019

	2019	(For Comparative Purposes Only) 2018
OPERATING REVENUES		
Charges for services:		
Water revenues	$ 1,963,461	$ 1,861,703
Wastewater revenues	1,430,692	1,402,386
Penalty and reconnection charges	61,887	64,329
Fees	406,559	392,772
Miscellaneous	70,886	15,611
Total operating revenues	3,933,485	3,736,801
OPERATING EXPENSES		
Salaries and wages	967,193	888,301
Employee benefits	322,496	276,840
Utilities and telephone	112,585	104,953
Water and wastewater services	1,568,323	1,224,847
Operating supplies, fees, and permits	54,052	70,317
Professional services (Note 11)	232,966	175,718
Repairs and maintenance	213,103	189,104
Insurance	34,076	35,394
Vehicle supplies and maintenance	57,599	46,372
Bad debts	4,521	4,483
Office supplies and miscellaneous	56,372	40,466
Depreciation	875,629	879,399
Total operating expenses	4,498,915	3,936,194
Operating loss	(565,430)	(199,393)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	27,451	19,955
Facility fees	168,700	885,250
Gain on sale of surplus property	4,175	2,372
Interest expense	(141,871)	(149,479)
Total nonoperating revenues (expenses)	58,455	758,098
Income (loss) before contributions	(506,975)	558,705
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	156,981	-
Change in net position	(349,994)	558,705
NET POSITION BEGINNING AT JULY 1	13,029,088	12,470,383
NET POSITION ENDING AT JUNE 30	$ 12,679,094	$ 13,029,088

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

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2019

	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,447,022	$ 400,935	$ 2,847,957
Accounts receivable, net	425,614	295,887	721,501
Due from County	7,743	7,693	15,436
Inventories	37,693	477	38,170
Total current assets	2,918,072	704,992	3,623,064
Noncurrent assets:			
Cash and cash equivalents, restricted	45,230	32,490	77,720
Capital assets:			
Nondepreciable	1,458,399	18,000	1,476,399
Depreciable, net	7,835,432	6,891,417	14,726,849
Total noncurrent assets	9,339,061	6,941,907	16,280,968
Total assets	12,257,133	7,646,899	19,904,032
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	50,380	39,461	89,841
Deferred outflows related to other postemployment benefits	7,647	6,608	14,255
Total deferred outflows	58,027	46,069	104,096
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	251,483	95,260	346,743
Accrued payroll and related liabilities	30,884	21,643	52,527
Accrued interest payable	2,995	1,828	4,823
Due to County	11,867	-	11,867
Current portion of noncurrent liabilities	272,882	163,132	436,014
Total current liabilities	570,111	281,863	851,974
Noncurrent liabilities:			
Net pension liabililty	246,776	193,292	440,068
Net other postemployment benefit liability	156,024	138,533	294,557
Customer deposits	45,230	32,490	77,720
Due in more than one year	2,683,513	1,696,608	4,380,121
Total noncurrent liabilities	3,131,543	2,060,923	5,192,466
Total liabilities	3,701,654	2,342,786	6,044,440
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	60,242	47,186	107,428
Deferred inflows related to other postemployment benefits	7,058	5,875	12,933
	67,300	53,061	120,361
NET POSITION			
Net investment in capital assets	6,450,676	5,119,029	11,569,705
Unrestricted	2,095,530	178,092	2,273,622
Total net position	$ 8,546,206	$ 5,297,121	13,843,327
Reconciliation with business-type activities in the statement of net position:			
Long-term membership fee payable to New River Valley Regional Water Authority legally paid by the County but financed ultimately by enterprise funds revenues.			(1,164,233)
			$ 12,679,094

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

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Water	Wastewater	Total
OPERATING REVENUES			
Charges for services:			
Water revenues	$ 1,963,461	$ -	$ 1,963,461
Wastewater revenues	-	1,430,692	1,430,692
Penalty and reconnection charges	44,208	17,679	61,887
Fees	279,008	127,551	406,559
Miscellaneous	66,692	4,194	70,886
Total operating revenues	2,353,369	1,580,116	3,933,485
OPERATING EXPENSES			
Salaries and wages	543,482	423,711	967,193
Employee benefits	173,767	148,729	322,496
Utilities and telephone	37,416	75,169	112,585
Water and wastewater services	934,353	633,970	1,568,323
Operating supplies, fees, and permits	18,434	35,618	54,052
Professional services	202,820	30,146	232,966
Repairs and maintenance	82,766	130,337	213,103
Insurance	19,369	14,707	34,076
Vehicle supplies and maintenance	37,575	20,024	57,599
Bad debts	2,514	2,007	4,521
Office supplies and miscellaneous	52,168	4,204	56,372
Membership fees	47,523	-	47,523
Depreciation	414,982	460,647	875,629
Total operating expenses	2,567,169	1,979,269	4,546,438
Operating loss	(213,800)	(399,153)	(612,953)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	27,451	-	27,451
Facility fees	95,700	73,000	168,700
Gain on sale of surplus property	4,175	-	4,175
Interest expense	(72,871)	(45,240)	(118,111)
Total nonoperating revenues	54,455	27,760	82,215
Loss before contributions	(159,345)	(371,393)	(530,738)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	-	156,981	156,981
Change in net position	(159,345)	(214,412)	(373,757)
Total net position – beginning	8,705,551	5,511,533	14,217,084
Total net position – ending	$ 8,546,206	$ 5,297,121	$ 13,843,327

Reconciliation with business-type activities in the statement of activities:	
Change in net position	$ (373,757)
Principal repayment on initial membership fee to New River Valley Regional Water Authority legally due from County but financed ultimately by enterprise fund revenues.	23,763
Change in net position of business-type activities	$ (349,994)

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

EXHIBIT 5

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For the Year Ended June 30, 2019

	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	$ 2,309,630	$ 1,559,670	$ 3,869,300
Payments to suppliers	(1,284,366)	(921,488)	(2,205,854)
Payments to employees	(748,680)	(595,635)	(1,344,315)
Payments to County for financial services	(76,714)	-	(76,714)
Net cash provided by operating activities	199,870	42,547	242,417
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(236,101)	(19,790)	(255,891)
Facility fee payments from customers	95,700	73,000	168,700
Proceeds from the sale of capital assets	4,175	-	4,175
Principal payments on long-term debt	(179,352)	(111,816)	(291,168)
Interest payments on debt	(73,063)	(45,354)	(118,417)
Net cash used in capital and related financing activities	(388,641)	(103,960)	(492,601)
INVESTING ACTIVITIES			
Interest received	27,451	-	27,451
Net decrease in cash and cash equivalents	(161,320)	(61,413)	(222,733)
CASH AND CASH EQUIVALENTS			
Beginning at July 1	2,653,572	494,838	3,148,410
Ending at June 30	$ 2,492,252	$ 433,425	$ 2,925,677
RECONCILIATION TO EXHIBIT 4			
Cash and cash equivalents	$ 2,447,022	$ 400,935	$ 2,847,957
Cash and cash equivalents, restricted	45,230	32,490	77,720
	$ 2,492,252	$ 433,425	$ 2,925,677
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (213,800)	$ (399,153)	$ (612,953)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	414,982	460,647	875,629
Pension expense net of employer contributions	(42,344)	(31,524)	(73,868)
Other postemployment benefit expense net of employer contributions	3,832	4,075	7,907
Increase in accounts receivable	(42,085)	(20,779)	(62,864)
Increase in due from County	(403)	3,169	2,766
(Increase)/decrease in inventories	(6,732)	192	(6,540)
Increase/(decrease) in accounts payable and accrued expenses	71,757	19,326	91,083
Decrease in due to County	6,722	-	6,722
Increase (decrease) in accrued payroll and related liabilities and compensated absences	7,081	4,254	11,335
Increase in customer deposits	860	2,340	3,200
Net cash provided by operating activities	$ 199,870	$ 42,547	$ 242,417
SCHEDULE OF NON-CASH ACTIVITIES			
Contributions of capital assets	$ -	$ 156,981	$ 156,981

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

Note 1. Summary of Significant Accounting Policies

Reporting entity

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

Measurement focus and basis of accounting

The Authority's financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

The Authority reports the following major proprietary funds:

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

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

Cash and cash equivalents

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

Unbilled accounts receivable

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

Allowance for uncollectible accounts

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Due from other governmental units

Due from other governmental units consists of funds due for reimbursement of grant expenditures.

Inventories

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

Capital assets

Capital assets which include property, plant, and equipment are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed.

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

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

Compensated absences

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

Pensions and Other Postemployment Benefits (OPEB)

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

Net position

Net position is the difference between assets, deferred outflow of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources

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

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

Estimates

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

Comparative data

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

Note 2. Cash and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-440 *et. seq*. of the *Code of Virginia.* Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Restricted assets

Restricted cash and cash equivalents consist of customer deposits.

(Continued)

Note 3. Accounts Receivable, Net

Accounts receivable consists of the following:

	Water	Wastewater	Total
Billed	$ 166,965	$ 129,752	$ 296,717
Unbilled	284,149	186,135	470,284
Allowance for uncollectible accounts	(25,500)	(20,000)	(45,500)
	$ 425,614	$ 295,887	$ 721,501

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land, improvements, and rights	$ 340,389	$ -	$ -	$ 340,389
Construction in progress	29,135	229,875	-	259,010
Intangible asset (Note 9)	877,000	-	-	877,000
Total capital assets, not depreciated	1,246,524	229,875	-	1,476,399
Capital assets, being depreciated				
Buildings	267,622	-	-	267,622
Mobile equipment	493,648	-	16,226	477,422
Other equipment	1,005,430	26,016	6,027	1,025,419
Wastewater systems	17,264,639	156,981	-	17,421,620
Water systems	15,216,222	-	-	15,216,222
Total capital assets, being depreciated	34,247,561	182,997	22,253	34,408,305
Less accumulated depreciation				
Buildings	140,996	14,295	-	155,291
Mobile equipment	389,997	25,518	16,226	399,289
Other equipment	436,052	41,176	6,027	471,201
Wastewater systems	10,370,116	414,796	-	10,784,912
Water systems	7,490,919	379,844	-	7,870,763
Total accumulated depreciation	18,828,080	875,629	22,253	19,681,456
Total capital assets being depreciated, net	15,419,481	(692,632)	-	14,726,849
Total capital assets, net	$ 16,666,005	$ (462,757)	$ -	$ 16,203,248

(Continued)

Note 5. Long-Term Liabilities

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

	Beginning Balance	Issuances	Retirements	Ending Balance	Due within One Year
Revenue bonds	$ 4,874,156	$ -	$ 286,516	$ 4,587,640	$ 293,614
Note Payable	50,555	-	4,652	45,903	4,868
Membership fee payable (Note 9)	1,187,996	-	23,763	1,164,233	24,238
Compensated absences	177,005	129,491	123,904	182,592	137,532
	$ 6,289,712	$ 129,491	$ 438,835	$ 5,980,368	$ 460,252

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

	Revenue Bonds		Note Payable		Membership Fee Payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 293,614	$ 109,115	$ 4,868	$ 1,988	$ 24,238	$ 23,285
2021	300,889	101,840	5,094	1,762	24,723	22,800
2022	308,344	94,385	5,331	1,525	25,217	22,305
2023	315,984	86,745	5,579	1,277	25,721	21,801
2024	323,813	78,916	5,838	1,018	26,236	21,287
2025 – 2029	1,743,463	270,181	19,193	1,376	139,262	98,350
2030 – 2034	1,301,533	56,616	-	-	153,757	83,855
2035 – 2039	-	-	-	-	169,760	67,852
2040 – 2044	-	-	-	-	187,429	50,183
2045 – 2049	-	-	-	-	206,937	30,675
2050 – 2054	-	-	-	-	180,953	9,137
	$ 4,587,640	$ 797,798	$ 45,903	$ $ 8,946	$ $1,164,233	$ 451,530

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
Revenue Bonds:					
Water and Sewer Refunding Bond, 2013	03/28/2013	2032	$ 6,275,000	2.45%	$ 4,587,640
Loans Payable:					
Southeast Rural Community Assistance Project, Inc.:					
Rural Development I	05/31/2017	2027	$ 41,250	4.55%	$ 34,427
Southeast RCAP Loan	05/31/2017	2027	13,750	4.55	11,476
			$ 55,000		$ 45,903

(Continued)

Note 6. Defined Benefit Pension Plan

Plan Description

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

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

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

Employees Covered by Benefit Terms

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

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2019 was 10.38% 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 political subdivision were $89,841 and $70,490 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

(Continued)

Note 6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Note 6. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 6. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in the FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever is greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances at June 30, 2017	$ 4,174,696	$ 3,661,214	$ 513,482
Changes for the year:			
Service cost	68,739	-	68,739
Interest	209,001	-	209,001
Differences between expected and actual experience	(55,805)	-	(55,805)
Assumption changes	-	-	-
Contributions – employer	-	70,490	(70,490)
Contributions – employee	-	30,837	(30,837)
Net investment income	-	195,896	(195,896)
Benefit payments, including refunds of employee contributions	(150,210)	(150,210)	-
Administrative expenses	-	(1,700)	1,700
Other changes	-	(174)	174
Net changes	71,725	145,139	(73,414)
Balances at June 30, 2018	$ 4,246,421	$ 3,806,353	$ 440,068

(Continued)

Note 6. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	$ 986,066	$ 440,068	$ (12,220)

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

For the year ended June 30, 2019, the political subdivision recognized pension expense of $(8,903). At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 66,450
Change in assumptions	-	8,906
Net difference between projected and actual earnings on pension plan investments	-	32,072
Employer contributions subsequent to the measurement date	89,841	-
Total	$ 89,841	$ 107,428

Note 6. Defined Benefit Pension Plan (Continued)

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

The $89,841 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2020	$ (37,293)
2021	(30,175)
2022	(36,839)
2023	(3,121)
2024	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 7. Other Postemployment Benefits Liability – Local Plan

Plan Description and Benefits Provided

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

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

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

Employees Covered by Benefit Terms

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

Total OPEB Liability

The Authority's total OPEB liability of $229,160 was measured as of June 30, 2019 and was determined based on an actuarial valuation performed as of June 30, 2017.

Actuarial Assumptions and other inputs

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

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Healthcare cost trend rates	4.2% - 6.5%
Retirees' share of benefit-related costs	100%

Mortality rates: .016% -11.9%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of VRS experience studies for the period from July 1, 2012 through June 30, 2016.

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

Changes in assumptions and other inputs since the July 1, 2015 valuation include:

- The age-related claims costs used to estimate the true underlying cost of coverage for pre-65 retirees was updated to reflect medical changes since the prior valuation.
- The pre-Medicare healthcare trend assumption was changed from 5.10% for fiscal 2016, 6.20% for fiscal 2017, 6.80% for fiscal 2018, then grading to an ultimate rate of 4.40% for fiscal 2092 to 6.10% for fiscal 2018, 5.80% for fiscal 2019, 6.50% for fiscal 2020, then grading to an ultimate rate of 4.20% for fiscal 2100.
- The withdrawal, retirement, mortality, and disability assumptions were changed to be consistent with the assumptions used in the June 30, 2017 valuation of the Virginia Retirement System.
- The assumed percentage of future retirees electing to continue their medical coverage upon retirement was increased from 30% to 40%.
- The assumed percentage of future retirees electing to also cover their spouse was decreased from 30% to 25%.
- As required by GASB 75, the actuarial cost method was changed from projected unit credit to entry age normal (level percentage of pay).

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

Changes in the Total OPEB Liability

Balance at June 30, 2018	$ 209,196
Changes for the year:	
Service cost	11,276
Interest	8,387
Assumption or other input changes	7,898
Benefit payments	(7,597)
Net changes	19,964
Balance at June 30, 2019	$ 229,160

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

The following presents the total OPEB liability of the Authority , as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current discount rate:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Total OPEB liability	$ 252,199	$ 229,160	$ 208,549

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

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

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
Total OPEB liability	$ 199,856	$ 229,160	$ 263,965

(Continued)

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

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

For the year ended June 30, 2019, the Authority recognized OPEB expense of $19,901. At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ 6,512	$ 5,392
Total	$ 6,512	$ 5,392

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

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ 238
2020	238
2021	238
2022	238
2023	168
Thereafter	-

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

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

Plan Description

Group Life Insurance Program

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

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

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

Contributions

Contributions to the VRS OPEB program were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB program is as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2019 Contribution	$ 4,544
June 30, 2018 Contribution	$ 4,259

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

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

The net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2019 proportionate share of liability	$ 65,397
June 30, 2018 proportion	.09424 %
June 30, 2017 proportion	.09528 %
June 30, 2019 expense	$ 137

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

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,199	$ 1,143
Change in assumptions	-	2,742
Net difference between projected and actual earnings on OPEB plan investments	-	2,148
Changes in proportion	-	1,508
Employer contributions subsequent to the measurement date	4,544	-
Total	$ 7,743	$ 7,541

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

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

The deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

Year Ending June 30,		Increase (Reduction) to OPEB Expense
2020	$	(1,280)
2021		(1,280)
2022		(1,280)
2023		(685)
2024		(46)
Thereafter		229

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

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2017, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.5 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	GLI: 7.0%

* 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 rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

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

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

Net OPEB Liabilities

The net OPEB liability represent the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, net OPEB liability amount for the VRS OPEB program is as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 3,113,508
Plan fiduciary net position	1,594,773
Employers' net OPEB liability (asset)	$ 1,518,735
Plan fiduciary net position as a percentage of total OPEB liability	51.22%

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

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

Long-Term Expected Rate of Return

Group Life Insurance

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

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

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

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

Discount Rate

The discount rate used to measure the GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	$ 85,459	$ 65,397	$ 49,128

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9. Service Contracts

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

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

(Continued)

Note 9. Service Contracts (Continued)

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

During 2014, in accordance with joining the Water Authority, the Authority agreed to pay for a transitional meter setting with an estimated cost of $120,000; however, this had not occurred at year end. The transitional meter setting is expected to be completed during fiscal year 2020. The Authority will also be responsible for capital upgrades with an estimated cost of $6,075,000. The design work of the capital upgrades began in fiscal year 2018 and was completed in fiscal year 2019. $259,010 in capital upgrades were included in Construction in Progress at June 30, 2019.

Note 10. Risk Management

General liability and other

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

Health benefits

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

Note 11. Related Party Transactions

The County serves as paymaster and performs other financial services for the Authority including billing customers, processing payments, paying invoices, reconciling bank statements, and maintaining and reconciling the general ledger. The County bills the Authority for these services based on the actual time incurred. The cost of these services for the year, $83,436, is included in professional services.

The County provides office space to the Authority at no charge. At year end, the Authority has a balance of $11,867 due to the County for financial services provided. At year end, the Authority has a balance of $15,436 due from the County for monthly insurance premiums paid in advance.

Note 12. Concentrations

Two customers provide approximately six and nine percent, respectively, of operating revenue.

Note 13. Commitments and Contingencies

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

Note 14. Subsequent Events

On October 10, 2019 the PSA accepted an initial funding package offer from the Virginia Department of Health for assistance with the capital project discussed in Note 9. The funding package includes a $900,000 grant and $4,912,000 loan for a term of 30 years and interest rate of 2.5%.

Note 15. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

(Continued)

Note 15. New Accounting Standards (Continued)

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

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