

Montgomery County Public Service Authority

**(A Component Unit of
Montgomery County, Virginia)**

Financial Report

June 30, 2025

**MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY**

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INTRODUCTORY SECTION

**MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY**

**DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2025**

DIRECTORS

M. Todd King – Chair
Derek W. Kitts – Vice Chair
Mary W. Biggs – Secretary/Treasurer

April N. DeMotts
Steve R. Fijalkowski

Anthony M. Grafsky

OFFICIALS

Charles E. Campbell
Martin M. McMahon

Director
Attorney

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

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, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2025, the Authority adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

We have previously audited the Authority's 2024 financial statements, and our report dated November 21, 2024, expressed an unmodified opinion on those financial statements. The 2024 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, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and supplementary information sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 9, 2025

BASIC FINANCIAL STATEMENTS

**MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITIES**

**STATEMENT OF NET POSITION
June 30, 2025**

	2025	Restated (For Comparative Purposes Only) 2024
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 4,999,651	\$ 4,038,411
Accounts receivable, net (Note 3)	959,239	984,256
Accounts receivable, other	17,113	-
Due from County (Note 11)	40,122	114,253
Inventories	201,769	174,020
Total current assets	<u>6,217,894</u>	<u>5,310,940</u>
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	106,990	103,120
Capital assets: (Note 4)		
Nondepreciable	2,785,345	9,535,508
Depreciable, net	23,918,551	16,756,165
Total noncurrent assets	<u>26,810,886</u>	<u>26,394,793</u>
Total assets	<u>33,028,780</u>	<u>31,705,733</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 6)	332,954	199,902
Deferred outflows related to other postemployment benefits (Notes 7 and 8)	39,453	45,221
	<u>372,407</u>	<u>245,123</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	665,690	1,098,322
Accrued payroll and related liabilities	73,614	61,268
Accrued interest payable	11,868	88,908
Due to County (Note 11)	17,747	15,021
Current portion of noncurrent liabilities (Note 5)	761,811	525,246
Total current liabilities	<u>1,530,730</u>	<u>1,788,765</u>
Noncurrent liabilities:		
Net pension liability (Note 6)	611,631	564,874
Net other postemployment benefit liability (Notes 7 and 8)	608,674	667,895
Customer deposits	106,990	103,120
Due in more than one year (Note 5)	10,008,535	9,768,906
Total noncurrent liabilities	<u>11,335,830</u>	<u>11,104,795</u>
Total liabilities	<u>12,866,560</u>	<u>12,893,560</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 6)	129,360	81,293
Deferred inflows related to other postemployment benefits (Notes 7 and 8)	151,185	91,886
	<u>280,545</u>	<u>173,179</u>
NET POSITION, RESTATED (Note 15)		
Net investment in capital assets	17,080,188	17,273,692
Unrestricted	3,173,894	1,610,425
Total net position	<u>\$ 20,254,082</u>	<u>\$ 18,884,117</u>

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

**MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITIES**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2025**

	2025	Restated (For Comparative Purposes Only) 2024
OPERATING REVENUES		
Charges for services:		
Water revenues	\$ 3,162,528	\$ 2,871,409
Wastewater revenues	1,780,578	1,740,608
Penalty and reconnection charges	89,492	85,342
Fees	590,602	510,215
Miscellaneous	49,055	71,786
Total operating revenues	<u>5,672,255</u>	<u>5,279,360</u>
OPERATING EXPENSES		
Salaries and wages	1,322,517	1,197,311
Employee benefits	478,594	843,747
Utilities and telephone	158,340	164,901
Water and wastewater services	2,018,826	1,731,333
Operating supplies, fees, and permits	77,986	53,406
Professional services (Note 11)	311,622	286,395
Repairs and maintenance	290,493	296,791
Insurance	45,970	44,110
Vehicle supplies and maintenance	101,305	78,012
Bad debts	14,000	3,000
Office supplies and miscellaneous	79,513	42,937
Depreciation	1,135,732	912,354
Total operating expenses	<u>6,034,898</u>	<u>5,654,297</u>
Operating loss	<u>(362,643)</u>	<u>(374,937)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	54,591	2,322,762
Investment earnings	163,886	112,499
Facility fees	848,250	903,414
Gain on sale of capital assets	1,675	15,568
Interest expense	(201,420)	(161,346)
Total nonoperating revenues (expenses)	<u>866,982</u>	<u>3,192,897</u>
Income before contributions	<u>504,339</u>	<u>2,817,960</u>
CAPITAL CONTRIBUTIONS		
VRA loan forgiveness	150,476	565,500
Federal	708,150	481,101
Montgomery County	7,000	9,082
Total contributed capital	<u>865,626</u>	<u>1,055,683</u>
Change in net position	1,369,965	3,873,643
NET POSITION BEGINNING AT JULY 1, RESTATED (Note 15)	<u>18,884,117</u>	<u>15,010,474</u>
NET POSITION ENDING AT JUNE 30	<u>\$ 20,254,082</u>	<u>\$ 18,884,117</u>

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, 2025

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,973,485	\$ 2,026,166	\$ 4,999,651
Accounts receivable, net	599,089	360,150	959,239
Accounts receivable, other	2,438	14,675	17,113
Due from County	27,220	12,902	40,122
Inventories	156,732	45,037	201,769
Total current assets	<u>3,758,964</u>	<u>2,458,930</u>	<u>6,217,894</u>
Noncurrent assets:			
Cash and cash equivalents, restricted	61,790	45,200	106,990
Capital assets:			
Nondepreciable	2,785,345	-	2,785,345
Depreciable, net	19,348,339	4,570,212	23,918,551
Total noncurrent assets	<u>22,195,474</u>	<u>4,615,412</u>	<u>26,810,886</u>
Total assets	<u>25,954,438</u>	<u>7,074,342</u>	<u>33,028,780</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	177,318	155,636	332,954
Deferred outflows related to other postemployment benefits	18,130	21,323	39,453
Total deferred outflows	<u>195,448</u>	<u>176,959</u>	<u>372,407</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	544,820	120,870	665,690
Accrued payroll and related liabilities	44,283	29,331	73,614
Accrued interest payable	10,787	1,081	11,868
Due to County	17,747	-	17,747
Current portion of noncurrent liabilities	529,012	205,503	734,515
Total current liabilities	<u>1,146,649</u>	<u>356,785</u>	<u>1,503,434</u>
Noncurrent liabilities:			
Net pension liability	325,729	285,902	611,631
Net other postemployment benefit liability	316,574	292,100	608,674
Customer deposits	61,790	45,200	106,990
Due in more than one year	8,067,154	957,338	9,024,492
Total noncurrent liabilities	<u>8,771,247</u>	<u>1,580,540</u>	<u>10,351,787</u>
Total liabilities	<u>9,917,896</u>	<u>1,937,325</u>	<u>11,855,221</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	68,892	60,468	129,360
Deferred inflows related to other postemployment benefits	79,667	71,518	151,185
	<u>148,559</u>	<u>131,986</u>	<u>280,545</u>
NET POSITION			
Net investment in capital assets	13,568,830	3,511,358	17,080,188
Unrestricted	2,514,601	1,670,632	4,185,233
Total net position	<u>\$ 16,083,431</u>	<u>\$ 5,181,990</u>	<u>21,265,421</u>
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.			<u>(1,011,339)</u>
			<u>\$ 20,254,082</u>

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, 2025

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 3,162,528	\$ -	\$ 3,162,528
Wastewater revenues	-	1,780,578	1,780,578
Penalty and reconnection charges	65,205	24,287	89,492
Fees	366,867	223,735	590,602
Miscellaneous	20,701	28,354	49,055
Total operating revenues	<u>3,615,301</u>	<u>2,056,954</u>	<u>5,672,255</u>
OPERATING EXPENSES			
Salaries and wages	809,759	512,758	1,322,517
Employee benefits	271,471	207,123	478,594
Utilities and telephone	43,384	114,956	158,340
Water and wastewater services	1,407,253	611,573	2,018,826
Operating supplies, fees, and permits	19,756	58,230	77,986
Professional services	247,224	64,398	311,622
Repairs and maintenance	147,722	142,771	290,493
Insurance	23,018	22,952	45,970
Vehicle supplies and maintenance	82,184	19,121	101,305
Bad debts	6,000	8,000	14,000
Office supplies and miscellaneous	68,690	10,823	79,513
Membership fees	47,522	-	47,522
Depreciation	793,610	342,122	1,135,732
Total operating expenses	<u>3,967,593</u>	<u>2,114,827</u>	<u>6,082,420</u>
Operating loss	<u>(352,292)</u>	<u>(57,873)</u>	<u>(410,165)</u>
NONOPERATING REVENUES (EXPENSES)			
Federal grants	50,360	4,231	54,591
Investment earnings	163,886	-	163,886
Facility fees	408,750	439,500	848,250
Gain on disposal of capital assets	-	1,675	1,675
Interest expense	(153,123)	(27,535)	(180,658)
Total nonoperating revenues (expenses)	<u>469,873</u>	<u>417,871</u>	<u>887,744</u>
Income before contributions	<u>117,581</u>	<u>359,998</u>	<u>477,579</u>
CAPITAL CONTRIBUTIONS			
VRA loan forgiveness	150,476	-	150,476
Federal	635,415	72,735	708,150
Montgomery County	7,000	-	7,000
Total contributed capital	<u>792,891</u>	<u>72,735</u>	<u>865,626</u>
Change in net position	910,472	432,733	1,343,205
Total net position – beginning, restated (Note 15)	<u>15,172,959</u>	<u>4,749,257</u>	<u>19,922,216</u>
Total net position – ending	<u>\$ 16,083,431</u>	<u>\$ 5,181,990</u>	<u>\$ 21,265,421</u>
Reconciliation with business-type activities in the statement of activities:			
Change in net position			\$ 1,343,205
Principal repayment on initial membership fee to New River Valley Regional Water Authority legally due from County but financed ultimately by enterprise fund revenues.			<u>26,760</u>
Change in net position of business-type activities			<u>\$ 1,369,965</u>

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

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2025

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING ACTIVITIES			
Receipts from customers	\$ 3,626,927	\$ 2,043,102	\$ 5,670,029
Payments to suppliers	(2,380,694)	(1,024,042)	(3,404,736)
Payments to employees	(1,052,845)	(723,512)	(1,776,357)
Payments to County for financial services	(110,365)	-	(110,365)
	<u>83,023</u>	<u>295,548</u>	<u>378,571</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from federal grants	50,360	4,231	54,591
Acquisition and construction of capital assets	(832,805)	-	(832,805)
Facility fee payments from customers	408,750	439,500	848,250
Proceeds from issuance of long-term debt	790,000	-	790,000
Proceeds from loan forgiveness	150,476	-	150,476
Proceeds from the sale of capital assets	-	1,675	1,675
Principal payments on long-term debt	(202,333)	(129,503)	(331,836)
Interest payments on debt	(230,031)	(27,667)	(257,698)
	<u>134,417</u>	<u>288,236</u>	<u>422,653</u>
INVESTING ACTIVITIES			
Interest received	163,886	-	163,886
	<u>381,326</u>	<u>583,784</u>	<u>965,110</u>
CASH AND CASH EQUIVALENTS			
Beginning at July 1	2,653,949	1,487,582	4,141,531
Ending at June 30	<u>\$ 3,035,275</u>	<u>\$ 2,071,366</u>	<u>\$ 5,106,641</u>
RECONCILIATION TO EXHIBIT 3			
Cash and cash equivalents	\$ 2,973,485	\$ 2,026,166	\$ 4,999,651
Cash and cash equivalents, restricted	61,790	45,200	106,990
	<u>\$ 3,035,275</u>	<u>\$ 2,071,366</u>	<u>\$ 5,106,641</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (352,292)	\$ (57,873)	\$ (410,165)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	793,610	342,122	1,135,732
Pension income net of employer contributions	(20,358)	(17,870)	(38,228)
Other postemployment benefit expense net of employer contributions	3,014	2,832	5,846
(Increase) decrease in accounts receivable	15,886	(7,982)	7,904
(Increase) decrease in due from County	78,675	(4,544)	74,131
(Increase) decrease in inventories	(17,739)	(10,010)	(27,749)
Increase (decrease) in accounts payable and accrued expenses	(467,968)	35,336	(432,632)
Increase in due to County	2,726	-	2,726
(Increase) decrease in accrued payroll and related liabilities and compensated absences	45,729	11,407	57,136
Increase in customer deposits	1,740	2,130	3,870
	<u>\$ 83,023</u>	<u>\$ 295,548</u>	<u>\$ 378,571</u>
SCHEDULE OF NON-CASH ACTIVITIES			
Contributions of capital assets	<u>\$ 642,415</u>	<u>\$ 72,735</u>	<u>\$ 715,150</u>

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

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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 consists of amounts earned as of year end, but not yet billed because billing dates do not coincide with year end.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for uncollectible accounts

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

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	3-20 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)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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.

Change in Accounting Principle

In 2025, the Authority adopted GASB Statement No. 101, *Compensated Absences*, which established new guidance on the recognition and measurement for compensated absences. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more than likely to be used for time off or otherwise paid in cash or settled through noncash means. As stated in GASB Statement 100, *Accounting Changes and Error Corrections*, a change in accounting principle should be reported retroactively by restating new position for the cumulative effect of the change of the newly adopted accounting principle on prior periods. The Authority determined the cumulative effect was significant enough for a restatement of beginning net position documented in Note 15.

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)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 3. Accounts Receivable, Net

Accounts receivable consists of the following:

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Billed	\$ 250,939	\$ 185,660	\$ 436,599
Unbilled	414,150	223,490	637,640
Allowance for uncollectible accounts	<u>(66,000)</u>	<u>(49,000)</u>	<u>(115,000)</u>
	<u>\$ 599,089</u>	<u>\$ 360,150</u>	<u>\$ 959,239</u>

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land, improvements, and rights	\$ 322,389	\$ -	\$ -	\$ 322,389
Construction in progress	8,336,119	1,253,763	8,003,926	1,585,956
Intangible asset (Note 9)	<u>877,000</u>	<u>-</u>	<u>-</u>	<u>877,000</u>
Total capital assets, not depreciated	<u>9,535,508</u>	<u>1,253,763</u>	<u>8,003,926</u>	<u>2,785,345</u>
Capital assets, being depreciated:				
Buildings	1,410,040	-	-	1,410,040
Mobile equipment	632,199	221,457	19,849	833,807
Other equipment	1,455,601	72,735	-	1,528,336
Wastewater systems	17,421,620	-	-	17,421,620
Water systems	<u>19,784,266</u>	<u>8,003,926</u>	<u>-</u>	<u>27,788,192</u>
Total capital assets, being depreciated	<u>40,703,726</u>	<u>8,298,118</u>	<u>19,849</u>	<u>48,981,995</u>
Less accumulated depreciation:				
Buildings	253,630	39,937	-	293,567
Mobile equipment	472,845	87,635	19,849	540,631
Other equipment	666,625	58,921	-	725,546
Wastewater systems	12,786,959	293,180	-	13,080,139
Water systems	<u>9,767,502</u>	<u>656,059</u>	<u>-</u>	<u>10,423,561</u>
Total accumulated depreciation	<u>23,947,561</u>	<u>1,135,732</u>	<u>19,849</u>	<u>25,063,444</u>
Total capital assets being depreciated, net	<u>16,756,165</u>	<u>7,162,386</u>	<u>-</u>	<u>23,918,551</u>
Total capital assets, net	<u>\$ 26,291,673</u>	<u>\$ 8,416,149</u>	<u>\$ 8,003,926</u>	<u>\$ 26,703,896</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5. Long-Term Liabilities

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

	Beginning Balance, restated (Note 15)	Issuances	Retirements	Ending Balance	Due within One Year
Revenue bonds	\$ 9,017,980	\$ 790,000	\$ 331,836	\$ 9,476,144	\$ 536,511
Membership fee payable (Note 9)	1,038,099	-	26,760	1,011,339	27,296
Compensated absences	238,073	44,790	-	282,863	198,004
	<u>\$ 10,294,152</u>	<u>\$ 834,790</u>	<u>\$ 358,596</u>	<u>\$ 10,770,346</u>	<u>\$ 761,811</u>

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

Fiscal Year	Revenue Bonds		Membership Fee Payable	
	Principal	Interest	Principal	Interest
2026	\$ 536,511	\$ 174,796	\$ 27,296	\$ 20,227
2027	548,231	163,076	27,842	19,681
2028	560,215	151,092	28,398	19,124
2029	572,470	138,837	28,966	18,556
2030	576,558	126,350	29,546	17,977
2031 – 2035	2,038,782	468,925	156,832	80,880
2036 – 2040	1,199,555	343,335	173,156	64,457
2041 – 2045	1,303,565	239,325	191,178	46,434
2046 – 2050	1,416,596	126,294	211,076	26,537
2051 – 2054	723,661	17,730	137,049	5,518
	<u>\$ 9,476,144</u>	<u>\$ 1,949,760</u>	<u>\$ 1,011,339</u>	<u>\$ 319,391</u>

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
<u>Revenue Bonds:</u>					
Water and Sewer Refunding Bond, 2013	03/28/2013	2032	\$ 6,275,000	2.45%	\$ 2,713,160
Virginia Resource Authority, 2022	07/14/2022	2054	6,762,984	1.67%	6,762,984
			<u>\$ 13,037,984</u>		<u>\$ 9,476,144</u>

On July 14, 2022, the Authority closed on a loan with the Virginia Resources Authority through the Virginia Water Supply Revolving Fund of \$7,164,626 and loan forgiveness of \$1,400,000 with an interest rate of 1.67%. The proceeds are being used by the Authority to complete capital upgrades as agreed upon with the Water Authority (Note 9) and other capital upgrades necessary as part of taking over non-compliant water systems (Note 13). As of June 30, 2025, \$8,051,172 has been drawn down from the loan (\$6,762,984 in debt and \$1,288,188 in loan forgiveness). Loan forgiveness is earned on a prorated basis as funds are expended.

The Virginia Resources Authority debt requires the Authority to pledge its revenue to secure the payment of the principal and interest. The Authority covenants and agrees that it will fix and collect rates, fees, and other charges each fiscal year so that the net revenues available for debt service will equal at least 115% of the amount required each fiscal year to pay principal and interest on all debt service. The pledged revenue coverage ratio for the year ended June 30, 2025 was 3.00. Schedule 1 presents the pledged revenue coverage ratio.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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 ACFR.

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, 2025 was 14.26% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

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 \$174,198 and \$148,567 for the years ended June 30, 2025 and June 30, 2024, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$5,766 for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$5,893 for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$572,132 for the year ended June 30, 2025.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2025

Note 6. Defined Benefit Pension Plan (Continued)

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, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2023 rolled forward to the measurement date of June 30, 2024.

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, 2023, 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, 2024.

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	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table and a Modified MP-2020 Improvement Scale with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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): Updated mortality table; adjusted retirement rates to better fit experience; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates; no change to salary scale; no change to line of duty disability; and no change to discount rate.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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	32.00 %	6.70 %	2.14 %
Fixed Income	16.00	5.40	0.86
Credit Strategies	16.00	8.10	1.30
Real Assets	15.00	7.20	1.08
Private Equity	15.00	8.70	1.31
PIP – Private Investment Partnership	1.00	8.00	0.08
Diversifying Strategies	6.00	5.80	0.35
Cash	2.00	3.00	0.06
Leverage	(3.00)	3.50	(0.11)
Total	100.00 %		7.07 %
			7.07 %

* The above allocation provides for a one-year return of 7.07% (includes 2.50% inflation assumption). 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 7.10%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75% which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 6. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. From July 1, 2024 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, 2023	\$ 5,414,105	\$ 4,849,231	\$ 564,874
Changes for the year:			
Service cost	135,166	-	135,166
Interest	347,919	-	347,919
Benefit Changes	-	-	-
Differences between expected and actual experience	202,711	-	202,711
Contributions – employer	-	145,141	(145,141)
Contributions – employee	-	52,260	(52,260)
Net investment income (loss)	-	444,469	(444,469)
Benefit payments, including refunds of employee contributions	(283,355)	(283,355)	-
Administrative expenses	-	(2,925)	2,925
Other changes	-	93	(93)
Net changes	402,441	355,683	46,758
Balances at June 30, 2024	<u>\$ 5,816,546</u>	<u>\$ 5,204,914</u>	<u>\$ 611,631</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
	<hr/>	<hr/>	<hr/>
Political Subdivision's net pension liability	\$ 1,320,185	\$ 611,631	\$ 31,513
	<hr/>	<hr/>	<hr/>

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

For the year ended June 30, 2025, the Political Subdivision recognized pension expense of \$132,546. At June 30, 2025, 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
	<hr/>	<hr/>
Differences between expected and actual experience	\$ 158,756	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	129,360
Employer contributions subsequent to the measurement date	174,198	-
	<hr/>	<hr/>
Total	\$ 332,954	\$ 129,360
	<hr/>	<hr/>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2025**

Note 6. Defined Benefit Pension Plan (Continued)

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

The \$174,198 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 Fiscal Year ending June 30, 2026. 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,	Effect on Pension Expense
2026	\$ (18,242)
2027	100,417
2028	(25,333)
2029	(27,446)
2030	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2024 Annual Report. A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at varetire.org/media/shared/pdf/publications/2024-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 the single-employer plan. The retiree pays the full premium for these benefits if they have less than 20 years of service. 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.

Effective April 8, 2024, the Authority established the Retiree Health Insurance Supplement Program for both current and future retirees. The Authority pays a percentage of the health insurance premium for employees with 20 years of service who retire with full VRS benefits. Retirees are responsible for their remaining medical premium cost and 100% of their dental premium. The retiree must be enrolled in one of the Authority’s medical plans for at least 12 months immediately preceding retirement and must enroll in the Supplement Program no later than 30 days preceding retirement.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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

Plan Description and Benefits Provided (Continued)

The retiree's covered spouse and/or other dependent must be enrolled in one of the Authority's medical plans at least 12 months immediately preceding retirement. Spouse and/or dependent coverage ends at the earliest of: (1) either the spouse or retiree becoming eligible for Medicare, (2) the retiree's death, or (3) the spouse's or dependent's death.

The Authority may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate. No assets are accumulated in a GASB-compliant trust.

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 AFCR.

Total OPEB Liability

The Authority's total OPEB liability of \$557,227 was measured as of June 30, 2025 and was determined based on an actuarial valuation performed as of July 1, 2023.

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	3.50 % - 5.35 %
Healthcare cost trend rates	3.90 % - 6.40 %
Retirees' share of benefit-related costs	40 % - 100 %
Mortality rates	.011 % - 14.672 %

The actuarial assumptions used in the July 1, 2023 valuation were based on the results of VRS experience studies for the period from July 1, 2016 through June 30, 2020.

Effective April 8, 2024, the Authority established the Retiree Health Insurance Supplement Program for both current and future retirees. See Plan Description for detail on this program.

Changes in assumptions and other inputs since the July 1, 2023 valuation include:

- The healthcare trend assumption was updated. These rates are consistent with information from the Getzen Trend Mode, Milliman's Health Cost Guidelines, and actuarial judgment.
- The discount rate was changed from 3.93% to 5.20% since this was the discount rate used to measure the June 30, 2025 Total OPEB Liability for purposes of GASB 75.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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

Changes in the Total OPEB Liability

Balance at June 30, 2024	\$ 612,971
Changes for the year:	
Service cost	18,118
Interest	24,505
Assumption or other input changes	(83,124)
Benefit payments	<u>(15,244)</u>
Net changes	<u>(55,745)</u>
Balance at June 30, 2025	\$ <u>557,227</u>

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 (4.20%) or one percentage point higher (6.20%) than the current discount rate:

	<u>1.00% Decrease (4.20%)</u>	<u>Current Discount Rate (5.20%)</u>	<u>1.00% Increase (6.20%)</u>
Total OPEB liability	\$ <u>621,340</u>	\$ <u>557,227</u>	\$ <u>501,907</u>

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:

	<u>1.00% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1.00% Increase</u>
Total OPEB liability	\$ <u>485,851</u>	\$ <u>557,227</u>	\$ <u>642,864</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2025**

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, 2025, the Authority recognized OPEB expense of \$25,270. At June 30, 2025, 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
	<hr/>	<hr/>
Change in assumptions	\$ 5,458	\$ 142,344
Differences between expected and actual experience	<hr/> 17,164	<hr/> -
Total	<hr/> \$ 22,622 <hr/>	<hr/> \$ 142,344 <hr/>

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,	Addition (Reduction) to OPEB Expense
<hr/>	<hr/>
2026	\$ (17,353)
2027	(17,353)
2028	(18,570)
2029	(21,476)
2030	(20,352)
Thereafter	(24,618)

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2025

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/benefits-and-programs/benefits/life-insurance/>.

Contributions

Contributions to the VRS OPEB program were based on actuarially determined rates from actuarial valuations as of June 30, 2023. 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, with the exception of GLI which was also combined with employee contributions. Specific details related to the contributions for the VRS OPEB program is as follows:

Group Life Insurance Program

Governed by:	<i>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.</i>
Total rate:	1.18% of covered employee compensation. Rate allocated 60/40; 0.71% employee and 0.47% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2025 Contribution	\$ 6,108
June 30, 2024 Contribution	\$ 6,391

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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, 2024 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2023 and rolled forward to the measurement date of June 30, 2024. 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, 2024 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2025 proportionate share of liability	\$ 51,447
June 30, 2024 proportion	.10088%
June 30, 2023 proportion	.10021 %
June 30, 2025 expense	\$ 1,930

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, 2025, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,115	\$ 1,266
Change in assumptions	294	2,549
Net difference between projected and actual earnings on OPEB plan investments	-	4,337
Changes in proportion	2,314	689
Employer contributions subsequent to the measurement date	6,108	-
Total	<u>\$ 16,831</u>	<u>\$ 8,841</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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 Fiscal Year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

Group Life Insurance Program

<u>Year Ended June 30,</u>	<u>Addition (Reduction) to OPEB Expense</u>
2026	\$ (1,797)
2027	1,356
2028	447
2029	1,027
2030	849
Thereafter	-

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2023, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.25%
• Ages 65 and older	6.50 – 4.25%
Investment rate of return, net of expenses, including inflation	GLI: 6.75%

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.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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 the measurement date of June 30, 2024, net OPEB liability amount for the VRS OPEB program is as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 4,196,055
Plan fiduciary net position	\$ 3,080,133
Employers’ net OPEB liability (asset)	\$ 1,115,922
Plan fiduciary net position as a percentage of total OPEB liability	73.41%

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.

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 Note 6.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2025**

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

Discount Rate

The discount rate used to measure the GLI OPEB 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 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, 2024, 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 which was 113% of the actuarially determined contribution rate of GLI and 100% of the actuarially determined contribution rate for all other OPEB plans. From July 1, 2024 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 eligible 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 (5.75% GLI) or one percentage point higher (7.75% GLI) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
	<u> </u>	<u> </u>	<u> </u>
GLI Net OPEB liability	\$ 80,006	\$ 51,447	\$ 28,374

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2024-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

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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 a cost of \$9,358. This was completed in fiscal year 2020 and paid in July 2020. The Authority was also responsible for capital upgrades to the system. The initial design work of the upgrades was completed in fiscal year 2022. Construction began in fiscal year 2023 and was completed in fiscal year 2025. The cost of the upgrade was \$8,003,926. Funding for the construction of this project was obtained through a loan with the Virginia Resources Authority through the Virginia Water Supply Revolving Fund (Note 5).

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 annual comprehensive financial report of the County.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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, \$113,091, 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 \$17,747 due to the County for financial services provided. At year end, the Authority has a balance of \$40,122 due from the County for monthly insurance premiums paid in advance and other reimbursements.

Note 12. Concentrations

Two customers provide approximately eight and seven percent, respectively, of operating revenue.

Note 13. Commitments and Contingencies

In August 2021, the Office of Drinking Water (ODW) and VA Department of Health (VDH) notified the Authority of 5 publicly regulated, privately owned water systems in the County that were non-compliant. VDH requested the Authority take over the systems as the operator of last resort. The ODW offered to provide the Authority \$4 million in grant funding and a loan of \$750,000 from the Virginia Water Supply Revolving Fund (Note 5) in exchange for the PSA agreeing to take over the systems. On February 28, 2022, the Authority Board passed a resolution to complete the receivership process for operation of the systems. The Authority has taken over the operation of the systems and has brought these systems into compliance pursuant to a court order dated May 2, 2022 that was initiated by the state attorney general's office.

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 August 25, 2025, the Authority entered into agreement with the County for the County to contractually assume responsibility for operating and maintaining the Authority facilities. The Authority will pay the County for the cost of operating and maintaining facilities and daily management. This agreement took effect of October 1, 2025. The Authority will continue to be a discretely presented component unit of the County.

Note 15. Adoption of New Standard

The following is the restatement of beginning net assets related to the adoption of GASB Statement No. 101, *Compensated Absences* during the year. Additional information about the change in this accounting principle is further discussed in Note 1.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 15. Adoption of New Standard (Continued)

	<i>Business-Type Activities</i>	<i>Water</i>	<i>Wastewater</i>
Net position July 1, 2024, as previously reported	\$ 18,947,359	\$ 15,223,462	\$ 4,761,996
Change in compensated absences	63,242	50,503	12,739
Net position July 1, 2024, as restated	\$ 18,884,117	\$ 15,172,959	\$ 4,749,257

Note 16. New Accounting Standards

In April 2024, the GASB issued **Statement No. 103**, Financial Reporting Model Improvements. This statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability as well as addresses certain application issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

In September 2024, the GASB issued **Statement No. 104**, *Disclosure of Certain Capital Assets*. This statement requires certain information regarding capital assets to be presented by major class. Certain types of capital assets are to be disclosed separately in the capital assets note disclosures required by Statement No. 34. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

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

**SUPPLEMENTARY
INFORMATION**

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

PLEDGED REVENUE COVERAGE
For the Year Ended June 30, 2025

Fiscal Year	Gross Revenue (excluding grants)	Less: Operating Expenses (excluding depreciation)	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2025	\$ 6,686,066	\$ 4,899,166	\$ 1,786,900	\$ 331,836	\$ 257,698	3.03
2024 ¹	\$ 6,247,599	\$ 4,741,943	\$ 1,505,656	\$ 323,813	\$ 78,916	3.74
2023 ¹	\$ 5,401,648	\$ 4,092,122	\$ 1,309,526	\$ 315,984	\$ 86,745	3.25

This schedule is intended to show information for 10 years. Since fiscal year 2023 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

¹ Restated