



Montgomery County Public Service Authority

(A Component Unit of
Montgomery County, Virginia)

Financial Report

June 30, 2024

**MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY**

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Directory of Principal Officials	i

FINANCIAL SECTION

Independent Auditor's Report	1
------------------------------------	---

Basic Financial Statements

Government-wide Financial Statements

Exhibit 1 Statement of Net Position	4
Exhibit 2 Statement of Revenues, Expenses, and Changes in Net Position	5

Fund Financial Statements

Exhibit 3 Statement of Net Position – Proprietary Funds	6
Exhibit 4 Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	7
Exhibit 5 Statement of Cash Flows – Proprietary Funds.....	8
Notes to Financial Statements	9

Supplementary Information

Schedule 1 – Pledged Revenue Coverage	31
---	----

INTRODUCTORY SECTION

**MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY**

**DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2024**

DIRECTORS

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

Sara R. Bohn	Steve R. Fijalkowski
April N. DeMotts	Anthony M. Grafsky

OFFICIALS

Charles E. Campbell	Director
Martin M. McMahon	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, 2024, 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 the business-type activities and each major fund of the Authority, as of June 30, 2024, 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.

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 2023 financial statements, and our report dated November 17, 2023, expressed an unmodified opinion on those financial statements. The 2023 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, 2023, 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 statistical 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.



CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 21, 2024

BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET POSITION
June 30, 2024**

		Restated (For Comparative Purposes Only)
	2024	2023
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 4,038,411	\$ 2,380,832
Accounts receivable, net (Note 3)	984,256	840,500
Due from other governmental unit	-	490,767
Due from County (Note 11)	114,253	16,316
Inventories	174,020	159,350
Total current assets	5,310,940	3,887,765
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	103,120	97,410
Capital assets: (Note 4)		
Nondepreciable	9,535,508	8,244,104
Depreciable, net	16,756,165	12,745,923
Total noncurrent assets	26,394,793	21,087,437
Total assets	31,705,733	24,975,202
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 6)	199,902	198,302
Deferred outflows related to other postemployment benefits (Notes 7 and 8)	45,221	46,981
	245,123	245,283
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	1,098,322	1,273,159
Accrued payroll and related liabilities	61,268	65,727
Accrued interest payable	88,908	27,764
Due to County (Note 11)	15,021	6,184
Current portion of noncurrent liabilities (Note 5)	480,977	492,969
Total current liabilities	1,744,496	1,865,803
Noncurrent liabilities:		
Net pension liability (Note 6)	564,874	534,610
Net other postemployment benefit liability (Notes 7 and 8)	667,895	333,468
Customer deposits	103,120	97,410
Due in more than one year (Note 5)	9,749,933	7,148,457
Total noncurrent liabilities	11,085,822	8,113,945
Total liabilities	12,830,318	9,979,748
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 6)	81,293	181,432
Deferred inflows related to other postemployment benefits (Notes 7 and 8)	91,886	48,831
	173,179	230,263
NET POSITION, RESTATED (Note 15)		
Net investment in capital assets	17,273,692	14,617,106
Unrestricted	1,673,667	393,368
Total net position	\$ 18,947,359	\$ 15,010,474

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, 2024**

	2024	Restated (For Comparative Purposes Only) 2023
OPERATING REVENUES		
Charges for services:		
Water revenues	\$ 2,871,409	\$ 2,693,141
Wastewater revenues	1,740,608	1,610,136
Penalty and reconnection charges	85,342	87,119
Fees	510,215	464,026
Miscellaneous	71,786	36,859
Total operating revenues	<u>5,279,360</u>	<u>4,891,281</u>
OPERATING EXPENSES		
Salaries and wages	1,197,311	1,175,106
Employee benefits	780,505	419,313
Utilities and telephone	164,901	177,931
Water and wastewater services	1,731,333	1,618,409
Operating supplies, fees, and permits	53,406	60,559
Professional services (Note 11)	286,395	269,388
Repairs and maintenance	296,791	172,442
Insurance	44,110	35,374
Vehicle supplies and maintenance	78,012	75,518
Bad debts	3,000	35,833
Office supplies and miscellaneous	42,937	52,249
Depreciation	912,354	888,751
Total operating expenses	<u>5,591,055</u>	<u>4,980,873</u>
Operating loss	<u>(311,695)</u>	<u>(89,592)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	2,322,762	1,615,135
State grants	-	15,000
Investment earnings	112,499	50,160
Facility fees	903,414	450,250
Gain on sale of capital assets	15,568	9,957
Interest expense	(161,346)	(132,548)
Total nonoperating revenues (expenses)	<u>3,192,897</u>	<u>2,007,954</u>
Income before contributions	<u>2,881,202</u>	<u>1,918,362</u>
CAPITAL CONTRIBUTIONS		
VRA loan forgiveness	565,500	572,211
Federal	481,101	410,879
Montgomery County	9,082	13,498
Total contributed capital	<u>1,055,683</u>	<u>996,588</u>
Change in net position	3,936,885	2,914,950
NET POSITION BEGINNING AT JULY 1, RESTATED (Note 15)	<u>15,010,474</u>	<u>12,095,524</u>
NET POSITION ENDING AT JUNE 30	<u><u>\$ 18,947,359</u></u>	<u><u>\$ 15,010,474</u></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, 2024

	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,593,899	\$ 1,444,512	\$ 4,038,411
Accounts receivable, net	617,413	366,843	984,256
Due from County	105,895	8,358	114,253
Inventories	138,993	35,027	174,020
Total current assets	3,456,200	1,854,740	5,310,940
Noncurrent assets:			
Cash and cash equivalents, restricted	60,050	43,070	103,120
Capital assets:			
Nondepreciable	9,535,508	-	9,535,508
Depreciable, net	11,916,567	4,839,598	16,756,165
Total noncurrent assets	21,512,125	4,882,668	26,394,793
Total assets	24,968,325	6,737,408	31,705,733
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	106,460	93,442	199,902
Deferred outflows related to other postemployment benefits	21,184	24,037	45,221
Total deferred outflows	127,644	117,479	245,123
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	1,012,788	85,534	1,098,322
Accrued payroll and related liabilities	33,662	27,606	61,268
Accrued interest payable	87,695	1,213	88,908
Due to County	15,021	-	15,021
Current portion of noncurrent liabilities	267,618	186,599	454,217
Total current liabilities	1,416,784	300,952	1,717,736
Noncurrent liabilities:			
Net pension liability	300,828	264,046	564,874
Net other postemployment benefit liability	348,239	319,656	667,895
Customer deposits	60,050	43,070	103,120
Due in more than one year	7,655,271	1,083,323	8,738,594
Total noncurrent liabilities	8,364,388	1,710,095	10,074,483
Total liabilities	9,781,172	2,011,047	11,792,219
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	43,293	38,000	81,293
Deferred inflows related to other postemployment benefits	48,042	43,844	91,886
	91,335	81,844	173,179
NET POSITION			
Net investment in capital assets	13,622,449	3,651,243	17,273,692
Unrestricted	1,601,013	1,110,753	2,711,766
Total net position	\$ 15,223,462	\$ 4,761,996	19,985,458
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.			(1,038,099)
			\$ 18,947,359

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, 2024

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 2,871,409	\$ -	\$ 2,871,409
Wastewater revenues	-	1,740,608	1,740,608
Penalty and reconnection charges	62,451	22,891	85,342
Fees	351,842	158,373	510,215
Miscellaneous	61,019	10,767	71,786
	<u>3,346,721</u>	<u>1,932,639</u>	<u>5,279,360</u>
Total operating revenues			
OPERATING EXPENSES			
Salaries and wages	659,965	537,346	1,197,311
Employee benefits	417,089	363,416	780,505
Utilities and telephone	56,936	107,965	164,901
Water and wastewater services	1,157,112	574,221	1,731,333
Operating supplies, fees, and permits	15,474	37,932	53,406
Professional services	237,439	48,956	286,395
Repairs and maintenance	195,801	100,990	296,791
Insurance	23,025	21,085	44,110
Vehicle supplies and maintenance	51,065	26,947	78,012
Bad debts	3,000	-	3,000
Office supplies and miscellaneous	38,980	3,957	42,937
Membership fees	47,523	-	47,523
Depreciation	484,786	427,568	912,354
	<u>3,388,195</u>	<u>2,250,383</u>	<u>5,638,578</u>
Total operating expenses			
Operating loss	<u>(41,474)</u>	<u>(317,744)</u>	<u>(359,218)</u>
NONOPERATING REVENUES (EXPENSES)			
Federal grants	2,322,762	-	2,322,762
State grants	-	-	-
Investment earnings	112,499	-	112,499
Facility fees	420,414	483,000	903,414
Gain on disposal of capital assets	15,568	-	15,568
Interest expense	<u>(109,390)</u>	<u>(30,669)</u>	<u>(140,059)</u>
Total nonoperating revenues (expenses)	<u>2,761,853</u>	<u>452,331</u>	<u>3,214,184</u>
Loss before contributions	<u>2,720,379</u>	<u>134,587</u>	<u>2,854,966</u>
CAPITAL CONTRIBUTIONS			
VRA loan forgiveness	565,500	-	565,500
Federal	481,101	-	481,101
Montgomery County	9,082	-	9,082
Total contributed capital	<u>1,055,683</u>	<u>-</u>	<u>1,055,683</u>
Change in net position	<u>3,776,062</u>	<u>134,587</u>	<u>3,910,649</u>
Total net position – beginning, restated (Note 15)	<u>11,447,400</u>	<u>4,627,409</u>	<u>16,074,809</u>
Total net position – ending	<u>\$ 15,223,462</u>	<u>\$ 4,761,996</u>	<u>\$ 19,985,458</u>
Reconciliation with business-type activities in the statement of activities:			
Change in net position			\$ 3,910,649
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>26,236</u>
Change in net position of business-type activities			<u>\$ 3,936,885</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, 2024

	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 3,243,007	\$ 1,895,307	\$ 5,138,314
Payments to suppliers	(1,981,898)	(966,118)	(2,948,016)
Payments to employees	(952,590)	(751,260)	(1,703,850)
Payments to County for financial services	(75,999)	-	(75,999)
Net cash provided by operating activities	232,520	177,929	410,449
CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from federal grants	2,813,529	-	2,813,529
Acquisition and construction of capital assets	(5,725,250)	-	(5,725,250)
Facility fee payments from customers	420,414	483,000	903,414
Proceeds from issuance of long term debt	2,969,375	-	2,969,375
Proceeds from loan forgiveness	565,000	-	565,000
Proceeds from the sale of capital assets	17,001	-	17,001
Principal payments on long-term debt	(197,442)	(126,371)	(323,813)
Interest payments on debt	(48,118)	(30,798)	(78,916)
Net cash provided by capital and related financing activities	814,509	325,831	1,140,340
INVESTING ACTIVITIES			
Interest received	112,500	-	112,500
Net increase in cash and cash equivalents	1,159,529	503,760	1,663,289
CASH AND CASH EQUIVALENTS			
Beginning at July 1	1,494,420	983,822	2,478,242
Ending at June 30	<u>\$ 2,653,949</u>	<u>\$ 1,487,582</u>	<u>\$ 4,141,531</u>
RECONCILIATION TO EXHIBIT 3			
Cash and cash equivalents	\$ 2,593,899	\$ 1,444,512	\$ 4,038,411
Cash and cash equivalents, restricted	60,050	43,070	103,120
	<u>\$ 2,653,949</u>	<u>\$ 1,487,582</u>	<u>\$ 4,141,531</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (41,474)	\$ (317,744)	\$ (359,218)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	484,786	427,568	912,354
Pension income net of employer contributions	(39,295)	(32,180)	(71,475)
Other postemployment benefit expense net of employer contributions	200,209	179,033	379,242
Increase in accounts receivable	(104,154)	(39,602)	(143,756)
Increase in due from County	(97,298)	(639)	(97,937)
(Increase) decrease in inventories	(16,412)	1,742	(14,670)
Increase in accounts payable and accrued expenses	(129,669)	(45,168)	(174,837)
Decrease in due to County	8,837	-	8,837
(Increase) decrease in accrued payroll and related liabilities and compensated absences	(36,450)	2,649	(33,801)
Increase in customer deposits	3,440	2,270	5,710
Net cash provided by operating activities	<u>\$ 232,520</u>	<u>\$ 177,929</u>	<u>\$ 410,449</u>
SCHEDULE OF NON-CASH ACTIVITIES			
Contributions of capital assets	\$ 490,183	\$ -	\$ 490,183
Loan forgiveness	<u>\$ 565,500</u>	<u>\$ -</u>	<u>\$ 565,500</u>

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

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2024

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, 2024

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)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 3. Accounts Receivable, Net

Accounts receivable consists of the following:

	Water	Wastewater	Total
Billed	\$ 257,446	\$ 176,270	\$ 433,716
Unbilled	419,967	231,573	651,540
Allowance for uncollectible accounts	(60,000)	(41,000)	(101,000)
	<u>\$ 617,413</u>	<u>\$ 366,843</u>	<u>\$ 984,256</u>

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	\$ 322,389	\$ -	\$ -	\$ 322,389
Construction in progress	7,044,715	5,922,111	4,630,707	8,336,119
Intangible asset (Note 9)	877,000	-	-	877,000
Total capital assets, not depreciated	<u>8,244,104</u>	<u>5,922,111</u>	<u>4,630,707</u>	<u>9,535,508</u>
Capital assets, being depreciated:				
Buildings	1,410,040	-	-	1,410,040
Mobile equipment	672,252	63,400	103,453	632,199
Other equipment	1,163,016	292,585	-	1,455,601
Wastewater systems	17,421,620	-	-	17,421,620
Water systems	15,216,222	4,568,044	-	19,784,266
Total capital assets, being depreciated	<u>35,883,150</u>	<u>4,924,029</u>	<u>103,453</u>	<u>40,703,726</u>
Less accumulated depreciation:				
Buildings	213,693	39,937	-	253,630
Mobile equipment	525,207	49,658	102,020	472,845
Other equipment	610,917	55,708	-	666,625
Wastewater systems	12,420,185	366,774	-	12,786,959
Water systems	9,367,225	400,277	-	9,767,502
Total accumulated depreciation	<u>23,137,227</u>	<u>912,354</u>	<u>102,020</u>	<u>23,947,561</u>
Total capital assets being depreciated, net	<u>12,745,923</u>	<u>4,011,675</u>	<u>1,433</u>	<u>16,756,165</u>
Total capital assets, net	<u>\$ 20,990,027</u>	<u>\$ 9,933,786</u>	<u>\$ 4,632,140</u>	<u>\$ 26,291,673</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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	\$ 6,372,918	\$ 2,968,875	\$ 323,813	\$ 9,017,980	\$ 331,837
Membership fee payable (Note 9)	1,064,335	-	26,236	1,038,099	26,760
Compensated absences	204,173	113,578	142,920	174,831	122,380
	<u>\$ 7,641,426</u>	<u>\$ 3,082,453</u>	<u>\$ 492,969</u>	<u>\$ 10,230,910</u>	<u>\$ 480,977</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
2025	\$ 331,837	\$ 156,692	\$ 26,760	\$ 20,762
2026	549,759	161,548	27,296	20,227
2027	561,702	149,605	27,842	19,681
2028	573,911	137,396	28,398	19,124
2029	586,396	124,911	28,967	18,556
2030 – 2034	2,460,380	441,657	153,757	83,855
2035 – 2039	1,259,330	283,561	169,760	67,852
2040 – 2044	1,368,524	174,366	187,429	50,183
2045 – 2049	1,326,141	55,704	206,937	30,675
2050 – 2053	-	-	180,953	9,137
	<u>\$ 9,017,980</u>	<u>\$ 1,685,440</u>	<u>\$ 1,038,099</u>	<u>\$ 340,052</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%	\$ 3,044,995
Virginia Resource Authority, 2022	07/14/2022	2054	5,972,985	1.67%	5,972,985
			<u>\$ 12,247,985</u>		<u>\$ 9,017,980</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, 2024, \$7,110,696 has been drawn down from the loan (\$5,972,985 in debt and \$1,137,711 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, 2024 was 7.55. Schedule 1 presents the pledged revenue coverage ratio.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2024 was 13.70% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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 \$148,567 and \$141,430 for the years ended June 30, 2024 and June 30, 2023, 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, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2022 rolled forward to the measurement date of June 30, 2023.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2022, 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, 2023.

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 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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, 2024

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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00 %	6.14 %	2.09 %
Fixed Income	15.00	2.56	0.38
Credit Strategies	14.00	5.60	0.78
Real Assets	14.00	5.02	0.70
Private Equity	16.00	9.17	1.47
MAPS – Multi-Asset Public Strategies	4.00	4.50	0.18
PIP – Private Investment Partnership	2.00	7.18	0.14
Cash	1.00	1.20	0.01
Total	100.00 %		<u>5.75 %</u>
	Inflation		<u>2.50 %</u>
	*Expected arithmetic nominal return		<u>8.25 %</u>

- * The above allocation provides for a one-year return of 8.25%. 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 7.14%, 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, 2024

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. 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, 2023, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2022 actuarial valuations, whichever was greater. From July 1, 2023 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, 2022	\$ 5,274,339	\$ 4,739,729	\$ 534,610
Changes for the year:			
Service cost	58,050	-	58,050
Interest	158,153	-	158,153
Benefit Changes	191		191
Differences between expected and actual experience	36,452	-	36,452
Contributions – employer	-	63,845	(63,845)
Contributions – employee	-	24,235	(24,235)
Net investment income	-	135,794	(135,794)
Benefit payments, including refunds of employee contributions	(113,080)	(113,080)	-
Administrative expenses	-	(1,346)	1,346
Other changes	-	54	(54)
Net changes	139,766	109,502	30,264
Balances at June 30, 2023	\$ 5,414,105	\$ 4,849,231	\$ 564,874

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Political Subdivision's net pension liability	<u>\$ 1,264,508</u>	<u>\$ 564,874</u>	<u>\$ (7,655)</u>

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

For the year ended June 30, 2024, the Political Subdivision recognized pension expense of \$108,752. At June 30, 2024, the Political Subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 50,289	\$ 11,552
Change in assumptions	1,046	-
Net difference between projected and actual earnings on pension plan investments	-	69,741
Employer contributions subsequent to the measurement date	<u>148,567</u>	<u>-</u>
Total	<u>\$ 199,902</u>	<u>\$ 81,293</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 6. Defined Benefit Pension Plan (Continued)

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

The \$148,567 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, 2025. 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
2025	\$ (35,148)
2026	(59,513)
2027	62,590
2028	2,113
2029	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2023 Annual Report. A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-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, 2024

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 \$612,971 was measured as of June 30, 2024 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 judgement.
- The discount rate was changed from 2.16% to 3.65% since this was the discount rate used to measure the June 30, 2023 Total OPEB Liability for purposes of GASB 75.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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

Changes in the Total OPEB Liability

Balance at June 30, 2023	\$ 280,603
Changes for the year:	
Service cost	11,076
Interest	10,470
Effect of Plan Changes	377,346
Assumption or other input changes	(56,764)
Benefit payments	(9,760)
Net changes	332,368
Balance at June 30, 2024	\$ 612,971

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 (2.93%) or one percentage point higher (4.93%) than the current discount rate:

	<u>1.00% Decrease (2.93%)</u>	<u>Current Discount Rate (3.93%)</u>	<u>1.00% Increase (4.93%)</u>
Total OPEB liability	\$ 689,497	\$ 612,971	\$ 547,196

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	\$ 532,578	\$ 612,971	\$ 710,117

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2024, the Authority recognized OPEB expense of \$392,939. At June 30, 2024, 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	\$ 6,680	\$ 83,203
Differences between expected and actual experience	22,571	-
Total	<u>\$ 29,251</u>	<u>\$ 83,203</u>

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
2025	\$ (6,120)
2026	(6,120)
2027	(6,120)
2028	(7,337)
2029	(10,244)
Thereafter	(18,011)

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2021. 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:	<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:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2024 Contribution	\$ 6,391
June 30, 2023 Contribution	\$ 5,824

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2023 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2022 and rolled forward to the measurement date of June 30, 2023. 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, 2023 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2024 proportionate share of liability	\$ 54,924
June 30, 2023 proportion	.10021%
June 30, 2022 proportion	.09607 %
June 30, 2024 expense	\$ 2,917

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, 2024, 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	\$ 5,486	\$ 1,675
Change in assumptions	1,174	3,806
Net difference between projected and actual earnings on OPEB plan investments	-	2,207
Changes in proportion	2,919	995
Employer contributions subsequent to the measurement date	6,391	-
Total	<u>\$ 15,970</u>	<u>\$ 8,683</u>

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2025. 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

Year Ended June 30,	Addition (Reduction) to OPEB Expense
2025	\$ 217
2026	(1,870)
2027	1,262
2028	359
2029	928
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, 2022, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2023:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.25 – 4.75%
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, 2024

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, 2023, net OPEB liability amount for the VRS OPEB program is as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,907,052
Plan fiduciary net position	\$ 2,707,739
Employers' net OPEB liability (asset)	\$ 1,199,313
Plan fiduciary net position as a percentage of total OPEB liability	69.30%

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, 2024

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, 2023, 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, 2023 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%)
GLI Net OPEB liability	\$ 81,414	\$ 54,924	\$ 33,506

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2023 Annual Comprehensive Financial Report (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-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)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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 is responsible for capital upgrades with an estimated cost of \$9,200,000. The initial design work of the capital upgrades was completed in fiscal year 2019 and additional design work was required in fiscal years 2020, 2021, and 2022. Construction began in fiscal year 2023 and is expected to be complete in fiscal year 2025. \$7,569,260 in capital upgrades were included in Construction in Progress as of June 30, 2024. Funding for the construction of this project has been 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, 2024

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, \$84,836, 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 \$15,021 due to the County for financial services provided. At year end, the Authority has a balance of \$114,253 due from the County for monthly insurance premiums paid in advance and other reimbursements.

Note 12. Concentrations

Two customers provide approximately seven and six 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

The Authority has evaluated events and transactions for potential recognition or disclosure through November 21, 2024, the date the financial statements were available to be issued. Management is not aware of any subsequent events that occurred or other matters that should be disclosed.

(Continued)

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

Note 15. Prior Period Restatement

In the current year, it was determined there was an account receivable and an account payable in fiscal year 2023 that were not recorded. In addition, there was an error in wastewater inventory. The following is a summary of the restatement to net position.

	<i>Business-Type Activities</i>	<i>Water</i>	<i>Wastewater</i>
Net position July 1, 2023, as previously reported	\$ 14,502,054	\$ 10,971,115	\$ 4,595,274
Change in accounts receivable	490,767	490,767	-
Change in accounts payable	(14,482)	(14,482)	-
Change in inventory	32,135	-	32,135
	<u>15,010,474</u>	<u>11,447,400</u>	<u>4,627,409</u>
Net position July 1, 2023, as restated	\$ 15,010,474	\$ 11,447,400	\$ 4,627,409

Note 16. New Accounting Standards

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

In December 2023, the GASB issued **Statement No. 102**, *Certain Risk Disclosures*. This statement defines and requires governments to disclose the risks related to concentrations of inflows or outflows of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024.

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.

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, 2024**

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2024	\$ 8,633,603	\$ 5,591,055	\$ 3,042,548	\$ 323,813	\$ 78,916	7.55
2023 ¹	\$ 6,541,016	\$ 4,980,873	\$ 1,560,143	\$ 315,984	\$ 86,745	3.87

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