

**Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Financial Report**

**For the Year Ended June 30, 2019**

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**TAZEWELL COUNTY PUBLIC SERVICE AUTHORITY  
(A COMPONENT UNIT OF TAZEWELL COUNTY, VIRGINIA)  
FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2019**

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## INTRODUCTORY SECTION

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**TAZEWELL COUNTY PUBLIC SERVICE AUTHORITY**  
**BOARD MEMBERS**

Gregory T. DeGray.....Chairman  
Joe Nicholson.....Vice-Chairman  
Richard Smith.....Secretary/Treasurer  
Rhudy Keith.....Member  
J. R. Absher .....Member

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## FINANCIAL SECTION

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**Independent Auditors' Report**

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**To the Board Members of  
Tazewell County Public Service Authority  
Tazewell, Virginia**

**Report on the Financial Statements**

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

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

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

***Auditors' Responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Tazewell County Public Service Authority, as of June 30, 2019, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As described in Note 15 to the financial statements, in 2019, the Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* and early implemented GASB No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 5-7 and 40-48 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Tazewell County Public Service Authority's basic financial statements. The introductory section and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

*Supplementary and Other Information (continued)*

The introductory section and the other statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019, on our consideration of Tazewell County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tazewell County Public Service Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tazewell County Public Service Authority's internal control over financial reporting and compliance.

*Robinson, Famer, Cox Associates*

Blacksburg, Virginia  
November 14, 2019

## MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the Tazewell County Public Service Authority performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2019. Please read this information in conjunction with the Authority's financial statements.

The Tazewell County Public Service Authority presents three basic financial statements. These are: (1) a Statement of Net Position (2) a Statement of Revenues, Expenses and Changes in Net Position; and, (3) a Statement of Cash Flows.

Our financial position is measured in terms of resources we own and obligations we owe on a given date. This information is reported on the Statement of Net Position, which reflects the Authority's assets in relation to its debts to its suppliers, employees, and other creditors. The excess of our assets and deferred outflows of resources over liabilities and deferred inflows of resources is our net position.

Information regarding the results of our operations during the year is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement shows how much our overall net position increased or decreased during the year as a result of our operations.

Our Statement of Cash Flows discloses the flow of cash resources into and out of the Authority during the year (from operations, contributions, and other sources) and how we applied those funds (for example, payment of expenses, purchases of new property, etc.).

A summary of the Authority's Statement of Net Position for 2019 and 2018 is presented below:

|                                | 2019                 | 2018                 |
|--------------------------------|----------------------|----------------------|
| Current Assets                 | \$ 3,671,657         | \$ 2,507,404         |
| Restricted Assets              | 194,545              | 193,845              |
| Property and Equipment         | 75,870,650           | 74,892,202           |
| Total Assets                   | <u>\$ 79,736,852</u> | <u>\$ 77,593,451</u> |
| Deferred Outflows of Resources | <u>\$ 257,727</u>    | <u>\$ 283,426</u>    |
| Current Liabilities            | \$ 3,711,293         | \$ 3,337,627         |
| Long-term Liabilities          | 34,290,122           | 35,060,468           |
| Total Liabilities              | <u>\$ 38,001,415</u> | <u>\$ 38,398,095</u> |
| Deferred Inflows of Resources  | <u>\$ 255,781</u>    | <u>\$ 123,627</u>    |
| Net Position                   |                      |                      |
| Invested in Capital Assets     | \$ 40,318,061        | \$ 39,457,298        |
| Unrestricted                   | 1,419,322            | (102,143)            |
| Total Net Position             | <u>\$ 41,737,383</u> | <u>\$ 39,355,155</u> |

A summary of the Tazewell County Public Service Authority's Statements of Revenues, Expenses and Changes in Net Position for 2019 and 2018 is presented below.

|                             | 2019                       | 2018                       |
|-----------------------------|----------------------------|----------------------------|
| Operating Income            | <u>\$ 7,070,185</u>        | <u>\$ 6,827,766</u>        |
| Operating Expenses          | <u>8,018,576</u>           | <u>8,040,044</u>           |
| Net Operating Income (Loss) | (948,391)                  | (1,212,278)                |
| Non-Operating Income        | <u>3,330,619</u>           | <u>788,939</u>             |
| Changes in Net Position     | <u><u>\$ 2,382,228</u></u> | <u><u>\$ (423,339)</u></u> |

Operating income is defined as the amount of revenue received from providing customer services. During 2019 operating income was \$7,070,185 as compared to \$6,827,766 in the prior year.

Operating expenses are comprised of the direct expenses of operating the Service Authority. These include water purchases, chemicals, utilities, salaries and benefits, repairs and maintenance, occupancy, supplies, travel, and depreciation. (See the full Statement of Revenues, Expenses and Changes in Net Position for a complete breakdown of these expenses for 2019). During 2019, operating expenses were \$8,018,576 as compared to \$8,040,044 in the prior year.

Non-operating income is comprised of interest, tap fees, interest on debt, other income, and federal and state capital grants.

Net Position increased \$2,382,228 in 2019.

A summary of the Tazewell County Public Service Authority's Statements of Cash Flows for 2019 and 2018 is presented below:

#### Condensed Statement of Cash Flows

|  | 2019                     | 2018                     |
|--|--------------------------|--------------------------|
| Cash Flows from (used by) Operating Activities             | <u>\$ 1,558,954</u>      | <u>\$ 1,630,704</u>      |
| Cash Flows from (used by) Capital and Financing Activities | (851,020)                | (1,422,878)              |
| Cash Flows from (used by) Investing Activities             | <u>(267,358)</u>         | <u>(1,463,672)</u>       |
| Net Change in Cash   | 440,576                  | (1,255,846)              |
| Cash Beginning of Year                                     | <u>212,193</u>           | <u>1,468,039</u>         |
| Cash End of Year   | <u><u>\$ 652,769</u></u> | <u><u>\$ 212,193</u></u> |

Cash flows from operating activities reconciles the operating profit or loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the operating loss is decreased by the amount of any non-cash transactions and adjusted for changes in assets and liabilities. (See the full Statement of Cash Flows for a full listing of these transactions.)

Cash flows from capital and financing activities are comprised mainly of all the capital assets purchased by the Authority, the proceeds from capital grants and the payment of the Authority's debt and interest. Cash flows from investing activities are comprised of interest income. During 2019 there was a increase in cash of \$440,576.

### Capital Assets

At the end of 2019, the Tazewell County Public Service Authority had \$75,870,650 in net property and equipment. Capital assets are the largest asset of the Authority. During the year we spent \$4,392,963 on projects that were completed and will be placed in service. This increase is due to the Authority's commitment to improve and expand our facilities. Over the past several years, we have added to our water and sewer service capacity through various grant and loan programs, including the Department of Health, Department of Environmental Quality, and the Department of Housing and Community Development.

### Debt

As stated in Note 5, the Tazewell County Public Service Authority had \$37,144,554 in short and long-term debt outstanding at year end.

### Summary

The Tazewell County Public Service Authority has experienced growth in the last few years as a result of its receipt of numerous low interest and zero interest bonds and capital grants. These loans and grants have enabled us to greatly expand water and sewer service to the residents of the County.

### Contacting the Authority's Financial Management

This financial report is designed to provide the customers and our funding agencies with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions or need additional financial information, contact the Authority's Administrator at 168 Tazewell Mall Circle, Tazewell VA 24651.

## **Basic Financial Statements**

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Statement of Net Position  
At June 30, 2019

**Assets**

## Current Assets:

|   |                     |
|---|---------------------|
| Cash and cash equivalents                                   | \$ 458,224          |
| Investments   | 1,778,838           |
| Restricted assets - meter deposit cash and cash equivalents | 194,545             |
| Accounts receivable - customers, net                        | 476,973             |
| Accounts receivable - unbilled                              | 274,993             |
| Due from other governments                                  | 468,094             |
| Inventory of materials and supplies                         | 139,579             |
| Prepaid items   | 74,956              |
| Total Current Assets  | <u>\$ 3,866,202</u> |

## Noncurrent Assets:

## Capital Assets, net of accumulated depreciation:

|                            |                      |
|----------------------------|----------------------|
| Land and land rights       | \$ 330,662           |
| Construction in progress   | 3,355,725            |
| Buildings and improvements | 128,215              |
| Machinery and equipment    | 654,037              |
| Water and sewer plant      | 71,402,011           |
| Total Capital Assets       | <u>\$ 75,870,650</u> |

## Total Assets

\$ 79,736,852

**Deferred Outflows of Resources**

|                                      |                   |
|--------------------------------------|-------------------|
| OPEB related items                   | \$ 48,154         |
| Pension related items                | 209,573           |
| Total Deferred Outflows of Resources | <u>\$ 257,727</u> |

**Liabilities**

## Current Liabilities:

|  |                     |
|--|---------------------|
| Accounts payable - operations            | \$ 128,240          |
| Accounts payable - construction          | 410,212             |
| Wages payable                            | 92,327              |
| Accrued interest payable                 | 31,537              |
| Meter deposits                           | 194,545             |
| Compensated absences, current portion    | 188,441             |
| Line of credit                           | 621,944             |
| Bonds and notes payable, current portion | 2,044,047           |
| Total Current Liabilities                | <u>\$ 3,711,293</u> |

## Long-Term Liabilities:

|  |                      |
|--|----------------------|
| Bonds and notes payable - net of current portion | \$ 32,476,386        |
| Compensated absences - net of current portion    | 62,814               |
| Net OPEB liabilities                             | 778,365              |
| Net pension liability                            | 972,557              |
| Total Long-Term Liabilities                      | <u>\$ 34,290,122</u> |

## Total Liabilities

\$ 38,001,415

**Deferred Inflows of Resources**

|                                     |                   |
|-------------------------------------|-------------------|
| OPEB related items                  | \$ 158,159        |
| Pension related items               | 97,622            |
| Total Deferred Inflows of Resources | <u>\$ 255,781</u> |

**Net Position**

|                                  |                      |
|----------------------------------|----------------------|
| Net investment in capital assets | \$ 40,318,061        |
| Unrestricted                     | 1,419,322            |
| Total Net Position               | <u>\$ 41,737,383</u> |

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

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2019

|  |               |
|--|---------------|
| <b>Operating Revenues:</b>                             |               |
| Water service charges                                  | \$ 4,770,933  |
| Sewer service charges                                  | 1,731,441     |
| Water IRF charges                                      | 248,985       |
| Sewer IRF charges                                      | 125,528       |
| Garbage charges  | 27,496        |
| Penalties  | 94,233        |
| Other income   | 69,579        |
| Fire hydrant fees                                      | 1,990         |
| Total Operating Revenues                               | \$ 7,070,185  |
| <b>Operating Expenses:</b>                             |               |
| <i>Water Expenses:</i>                                 |               |
| Salaries and wages                                     | \$ 628,719    |
| Bulk water purchases                                   | 915,248       |
| Fuel and power   | 315,215       |
| Treatment and chemicals                                | 111,649       |
| Materials and supplies                                 | 163,680       |
| <i>Sewer Expenses:</i>                                 |               |
| Salaries and wages                                     | 314,311       |
| Bulk sewer purchases                                   | 335,152       |
| Fuel and power   | 126,146       |
| Treatment and chemicals                                | 9,827         |
| Materials and supplies                                 | 165,164       |
| <i>General Expenses:</i>                               |               |
| Maintenance salaries and wages                         | 540,649       |
| Maintenance materials and supplies                     | 415,169       |
| Meter reading expenses                                 | 77,996        |
| Customer records and collection salaries and wages     | 91,557        |
| Customer records and collection materials and supplies | 87,040        |
| Office supplies and expenses                           | 42,582        |
| Administrative salaries                                | 240,208       |
| Payroll taxes and benefits                             | 743,255       |
| Professional and contractual expense                   | 38,785        |
| Insurance  | 101,488       |
| Miscellaneous  | 7,521         |
| OPEB expense   | (318,117)     |
| Depreciation   | 2,865,332     |
| Total Operating Expenses                               | \$ 8,018,576  |
| Operating Income (Loss)                                | \$ (948,391)  |
| <b>Nonoperating Revenues (Expenses):</b>               |               |
| Interest Income  | \$ 34,572     |
| Tap fees-water   | 40,358        |
| Tap fees-sewer   | 8,285         |
| Contributions from Tazewell County                     | 1,043,037     |
| Russell County/Richlands WTP Debt Contribution         | 35,808        |
| Interest expense                                       | (327,873)     |
| Total Nonoperating Revenues (Expenses)                 | \$ 834,187    |
| Income (loss) before contributions                     | \$ (114,204)  |
| Capital contributions and construction grants          | \$ 2,496,432  |
| <b>Change in Net Position</b>                          | \$ 2,382,228  |
| Net position at beginning of year                      | 39,355,155    |
| Net position at end of year                            | \$ 41,737,383 |

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

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Statement of Cash Flows  
For the Year Ended June 30, 2019

|  |                            |
|--|----------------------------|
| Cash flows from operating activities:  |                            |
| Cash received from customers   | \$ 7,079,048               |
| Cash payments to suppliers for goods and services  | (2,928,157)                |
| Cash payments to employees for services and benefits   | (2,591,924)                |
| Net cash provided by (used for) operating activities   | <u>\$ 1,558,967</u>        |
| Cash flows from capital and related financing activities:  |                            |
| Tap Fees   | \$ 48,643                  |
| Grant and other contributions for construction   | 2,076,999                  |
| Grant and other contributions for capital debt service   | 1,078,845                  |
| Purchase of capital assets   | (3,971,677)                |
| Proceeds from loans and bonds  | 2,311,272                  |
| Principal payments on indebtedness   | (2,065,690)                |
| Interest payments on indebtedness  | (329,425)                  |
| Net cash provided by (used for) capital and related financing activities                                     | <u>\$ (851,033)</u>        |
| Cash flows from investing activities:  |                            |
| Interest income  | \$ 262                     |
| Purchase of investments  | (267,620)                  |
| Net cash provided by (used for) investing activities   | <u>\$ (267,358)</u>        |
| Increase (decrease) in cash and cash equivalents   | \$ 440,576                 |
| Cash and cash equivalents at beginning of year (includes restricted cash of \$193,845)                       | <u>212,193</u>             |
| Cash and cash equivalents at end of year (includes restricted cash of \$194,545)                             | <u><u>\$ 652,769</u></u>   |
| Reconciliation of operating income (loss) to net cash provided by<br>(used for) operating activities:        |                            |
| Operating income (loss)  | \$ (948,391)               |
| Adjustments to reconcile operating income (loss) to<br>net cash provided by (used for) operating activities: |                            |
| Depreciation   | 2,865,332                  |
| Changes in operating assets and liabilities:   |                            |
| Accounts receivable  | 43,561                     |
| Prepaid items  | (27,715)                   |
| Inventory  | (18,860)                   |
| Accounts payable   | 31,080                     |
| Wages payable  | 4,159                      |
| Deferred outflows of resources   | 25,699                     |
| Deferred inflows of resources  | 132,154                    |
| Net OPEB liabilities   | (459,498)                  |
| Net pension liability  | (59,252)                   |
| Compensated absences   | 5,396                      |
| Due to other governments   | (35,398)                   |
| Meter deposits   | 700                        |
| Net cash provided by (used for) operating activities   | <u><u>\$ 1,558,967</u></u> |
| Noncash investing, capital, or financing activities:   |                            |
| Construction payables  | \$ 410,212                 |

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

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements**  
**At June 30, 2019**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

Tazewell County Public Service Authority was created by the Board of Supervisors of Tazewell County to acquire, finance, construct, and operate water and sewer systems in Tazewell County. The Authority currently provides a full range of water and sewer services to Tazewell County. The Authority is governed by a Board of Directors who are appointed by the Board of Supervisors of Tazewell County.

**Financial Statement Presentation**

The accompanying financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Management's Discussion and Analysis**

Current financial reporting standards require the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

**Proprietary Funds**

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The proprietary fund measurement focus is based upon determination of net income, financial position, and cash flows. The proprietary fund of the Authority is an Enterprise fund which includes all of the Authority's operations.

**Enterprise Fund**

The Enterprise Fund accounts for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services.

**Financial Reporting Entity**

The Authority has been included in the basic financial statements of Tazewell County, Virginia as a component unit, in accordance with current financial reporting standards.

**Basis of Accounting**

The Authority uses the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Authority's principal operations. The principal operating revenues of the Authority are charges for water and sewer services. Operating expenses include the cost of providing these services and the related administration costs. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents/Investments

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

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is provided for all amounts outstanding for over 30 days. At June 30, 2019 the allowance for uncollectible accounts was \$341,931.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Inventory

Inventories of materials and supplies are valued at the lower of cost or market using the first in, first out method.

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets**

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

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

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

| <u>Assets</u>  | <u>Years</u> |
|--|--------------|
| Buildings  | 40           |
| Building improvements                                      | 15-25        |
| Structures, lines, and accessories (water and sewer plant) | 10-40        |
| Machinery and equipment                                    | 5-10         |

**Deferred Outflows/Inflows of Resources**

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

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

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Pensions

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

Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition to the VRS GLI OPEB Plan the Authority participates in the Tazewell County, Virginia health insurance plan. This plan allows for retirees to remain on the plan after retirement which creates an additional OPEB liability as discussed in Note 7.

Net Position

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

Net Position Flow Assumption

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

**NOTE 2 - DEPOSITS 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 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority’s investments at June 30, 2019 were held in the Authority’s name by the Authority’s custodial bank.

Credit Risk of Debt Securities: The Authority has not adopted an investment policy for credit risk. The Authority’s rated debt investments as of June 30, 2019 were rated by Standard and Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor’s rating scale.

| <u>Authority's Rated Debt Investments' Values</u> |                             |
|---|-----------------------------|
| <u>Rated Debt Investments</u>                     | <u>Fair Quality Ratings</u> |
|   | <u>AAAm</u>                 |
| VML/VACO Virginia Investment Pool                 | \$ 1,778,838                |

Redemption Restrictions: The Authority is limited to two withdrawals per month.

Fair Value Measurements: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority has measured fair value of the above investments at the net asset value (NAV).

**NOTE 3 - DUE FROM OTHER GOVERNMENTS**

The following is due from other governments:

|                                   | <u>Amount</u>     |
|-----------------------------------|-------------------|
| Community Development Block Grant | \$ 263,362        |
| Virginia Resources Authority      | 58,449            |
| Coal Water Development Fund       | 55,100            |
| Town of Tazewell                  | 51,175            |
| Southwest VA Regional WW Fund     | 25,720            |
| Cumberland Plateau PDC            | 14,288            |
| Total                             | <u>\$ 468,094</u> |

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

**NOTE 4 - CAPITAL ASSETS**

Capital assets are stated at cost less accumulated depreciation. Contributions received from developers and customers which are used to defray a part or all of the cost of installing a portion of the utility plant are credited to construction contributions. Estimated cost of facilities dedicated to the Authority is added to the recorded value of the utility plant in service at fair market value. Depreciation is computed by the straight-line method over the useful life of the asset.

At June 30, 2019 capital assets consisted of the following items:

|   | <u>Beginning<br/>Balance</u> |                       | <u>Increases</u>      |  | <u>Decreases</u>       |  | <u>Ending<br/>Balance</u> |
|---|------------------------------|-----------------------|-----------------------|--|------------------------|--|---------------------------|
| Capital assets, not being depreciated:      |                              |                       |                       |  |                        |  |                           |
| Land  | \$ 330,662                   | \$ -                  | \$ -                  |  | \$ -                   |  | \$ 330,662                |
| Construction in progress                    | 4,717,346                    | 3,031,342             | (4,392,963)           |  | 3,355,725              |  | 3,355,725                 |
| Total capital assets not being depreciated  | <u>\$ 5,048,008</u>          | <u>\$ 3,031,342</u>   | <u>\$ (4,392,963)</u> |  | <u>\$ 3,686,387</u>    |  | <u>\$ 3,686,387</u>       |
| Capital assets, being depreciated:          |                              |                       |                       |  |                        |  |                           |
| Water and sewer plant                       | \$ 109,628,214               | \$ 5,096,212          | \$ -                  |  | \$ 114,724,426         |  | \$ 114,724,426            |
| Buildings and improvements                  | 226,623                      | -                     | -                     |  | 226,623                |  | 226,623                   |
| Machinery and equipment                     | 3,461,776                    | 109,189               | -                     |  | 3,570,965              |  | 3,570,965                 |
| Total capital assets being depreciated      | <u>\$ 113,316,613</u>        | <u>\$ 5,205,401</u>   | <u>\$ -</u>           |  | <u>\$ 118,522,014</u>  |  | <u>\$ 118,522,014</u>     |
| Accumulated depreciation:                   |                              |                       |                       |  |                        |  |                           |
| Water and sewer plant                       | \$ (40,594,025)              | \$ (2,728,390)        | \$ -                  |  | \$ (43,322,415)        |  | \$ (43,322,415)           |
| Buildings and improvements                  | (89,800)                     | (8,608)               | -                     |  | (98,408)               |  | (98,408)                  |
| Machinery and equipment                     | (2,788,594)                  | (128,334)             | -                     |  | (2,916,928)            |  | (2,916,928)               |
| Total accumulated depreciation              | <u>\$ (43,472,419)</u>       | <u>\$ (2,865,332)</u> | <u>\$ -</u>           |  | <u>\$ (46,337,751)</u> |  | <u>\$ (46,337,751)</u>    |
| Total capital assets being depreciated, net | <u>\$ 69,844,194</u>         | <u>\$ 2,340,069</u>   | <u>\$ -</u>           |  | <u>\$ 72,184,263</u>   |  | <u>\$ 72,184,263</u>      |
| Capital assets, net                         | <u>\$ 74,892,202</u>         | <u>\$ 5,371,411</u>   | <u>\$ (4,392,963)</u> |  | <u>\$ 75,870,650</u>   |  | <u>\$ 75,870,650</u>      |

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2019:

|  | <u>Balance</u><br><u>July 1, 2018</u> | <u>Increases/<br/>Issuances</u> | <u>Decreases/<br/>Retirements</u> | <u>Balance</u><br><u>June 30, 2019</u> | <u>Amount Due</u><br><u>in One Year</u> |
|--|---------------------------------------|---------------------------------|-----------------------------------|--|---|
| Direct Borrowings and Direct Placements: |                                       |                                 |                                   |  |   |
| Bonds and note payable                   | \$ 34,634,204                         | \$ 1,937,537                    | \$ (2,051,308)                    | \$ 34,520,433                          | \$ 2,044,047                            |
| Line of credit                           | 262,591                               | 373,735                         | (14,382)                          | 621,944                                | 621,944                                 |
| Compensated absences                     | 245,859                               | 189,790                         | (184,394)                         | 251,255                                | 188,441                                 |
| Net OPEB liabilities                     | 1,237,863                             | 101,025                         | (560,523)                         | 778,365                                | -                                       |
| Net pension liability                    | 1,031,809                             | 679,133                         | (738,385)                         | 972,557                                | -                                       |
|  | <u>\$ 37,412,326</u>                  | <u>\$ 3,281,220</u>             | <u>\$ (3,548,992)</u>             | <u>\$ 37,144,554</u>                   | <u>\$ 2,854,432</u>                     |
| Total                                    | <u>\$ 37,412,326</u>                  | <u>\$ 3,281,220</u>             | <u>\$ (3,548,992)</u>             | <u>\$ 37,144,554</u>                   | <u>\$ 2,854,432</u>                     |

Annual requirements to amortize bonds and notes outstanding as well as related interest are as follows:

| <u>Years Ending June 30,</u> | <u>Direct Borrowings and Direct</u><br><u>Placements</u> |                     |
|------------------------------|--|---------------------|
|                              | <u>Principal</u>   | <u>Interest</u>     |
| 2020                         | \$ 2,044,047   | \$ 294,691          |
| 2021                         | 2,113,437  | 298,410             |
| 2022                         | 2,168,640  | 332,589             |
| 2023                         | 2,188,218  | 312,829             |
| 2024                         | 2,212,171  | 288,678             |
| 2025-2029                    | 10,726,568   | 1,124,372           |
| 2030-2034                    | 8,794,258  | 637,664             |
| 2035-2039                    | 4,562,780  | 410,685             |
| 2040-2044                    | 1,349,526  | 157,313             |
| 2045-2049                    | 881,272  | 59,603              |
| 2050                         | 154,843  | 2,350               |
| Total                        | <u>\$ 37,195,760</u>                                     | <u>\$ 3,919,184</u> |
| Bond in draw down phase      | <u>\$ (2,675,327)</u>                                    |                     |
| Total                        | <u>\$ 34,520,433</u>                                     |                     |

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

**NOTE 5 - LONG-TERM OBLIGATIONS (Continued)**

**Details of Long-Term Obligations:**

|   | Interest Rates | Issue Date | Final Maturity Date | Amount of Original Issue | Payment Installments* | Balance Business-type Activities | Amount Due Within One Year |
|---|----------------|------------|---------------------|--------------------------|-----------------------|----------------------------------|----------------------------|
| <b>Direct Borrowings and Direct Placements:</b> |                |            |                     |                          |                       |                                  |                            |
| <i>Virginia Resource Authority (VRA) Bonds:</i> |                |            |                     |                          |                       |                                  |                            |
| Revenue Bond                                    | 2.50%          | 7/2/1999   | 2/1/2030            | \$ 187,000               | \$ 3,868 sa+          | \$ 74,758                        | \$ 5,923                   |
| Revenue Bond                                    | 0.00%          | 7/12/1999  | 12/1/2029           | 78,765                   | 2,570 sa+             | 26,475                           | 2,625                      |
| Revenue Bond                                    | 2.50%          | 10/22/1999 | 10/1/2029           | 387,415                  | 9,488 sa+             | 175,345                          | 13,653                     |
| Revenue Bond                                    | 1.50%          | 11/5/1999  | 3/1/2025            | 411,320                  | 8,752 sa+             | 100,567                          | 16,063                     |
| Revenue Bond                                    | 0.00%          | 3/13/2001  | 3/1/2031            | 1,877,590                | 29,323 sa+            | 703,744                          | 58,645                     |
| Revenue Bond                                    | 0.00%          | 3/31/2000  | 12/1/2030           | 176,465                  | 3,013 sa+             | 67,730                           | 5,882                      |
| Revenue Bond                                    | 0.00%          | 8/4/2000   | 11/1/2031           | 1,489,480                | 19,935 sa+            | 498,383                          | 39,871                     |
| Revenue Bond                                    | 2.50%          | 9/29/2000  | 3/1/2032            | 1,579,210                | 38,034 sa+            | 839,846                          | 55,255                     |
| Revenue Bond                                    | 0.00%          | 11/17/2000 | 5/1/2032            | 1,374,516                | 20,721 sa+            | 538,761                          | 41,443                     |
| Revenue Bond                                    | 0.00%          | 11/17/2000 | 5/1/2032            | 606,016                  | 9,525 sa+             | 247,666                          | 19,051                     |
| Revenue Bond                                    | 0.00%          | 5/17/2001  | 3/1/2032            | 1,752,851                | 21,128 sa+            | 549,330                          | 42,256                     |
| Revenue Bond                                    | 0.00%          | 12/20/2001 | 6/1/2033            | 4,563,680                | 77,012 sa+            | 2,156,005                        | 154,023                    |
| Revenue Bond                                    | 0.00%          | 3/29/2002  | 6/1/2033            | 1,978,113                | 32,834 sa+            | 918,757                          | 65,668                     |
| Revenue Bond                                    | 0.00%          | 12/20/2002 | 12/1/2034           | 1,387,467                | 22,172 sa+            | 701,838                          | 45,280                     |
| Revenue Bond                                    | 0.00%          | 6/25/2004  | 11/1/2034           | 463,353                  | 7,740 sa+             | 239,827                          | 15,480                     |
| Revenue Bond                                    | 0.00%          | 8/24/2004  | 1/1/2025            | 111,043                  | 3,694 sa+             | 38,084                           | 6,218                      |
| Revenue Bond                                    | 0.00%          | 8/24/2004  | 3/1/2025            | 555,640                  | 19,187 sa+            | 209,101                          | 32,302                     |
| Revenue Bond                                    | 0.00%          | 6/17/2005  | 10/1/2035           | 349,988                  | 5,833 sa+             | 192,494                          | 11,666                     |
| Revenue Bond                                    | 0.00%          | 6/17/2005  | 1/1/2036            | 1,259,399                | 20,282 sa+            | 681,249                          | 41,288                     |
| Revenue Bond                                    | 3.00%          | 9/15/2005  | 1/1/2027            | 1,328,089                | 42,311 sa+            | 575,869                          | 63,373                     |
| Revenue Bond                                    | 0.00%          | 5/15/2006  | 3/1/2032            | 4,746,285                | 95,750 sa+            | 1,698,545                        | 191,500                    |
| Revenue Bond                                    | 3.00%          | 2/12/2007  | 6/1/2027            | 228,788                  | 7,069 sa+             | 99,022                           | 11,209                     |
| Revenue Bond                                    | 0.00%          | 12/20/2007 | 7/1/2038            | 309,055                  | 9,976 sa+             | 188,986                          | 9,947                      |
| Revenue Bond                                    | 0.00%          | 10/22/2009 | 11/1/2039           | 4,634,378                | 46,969 sa+            | 3,333,500                        | 162,610                    |
| Revenue Bond                                    | 0.00%          | 12/30/2009 | 11/1/2040           | 705,365                  | 11,756 sa+            | 505,512                          | 23,512                     |
| Revenue Bond                                    | 3.00%          | 4/14/2010  | 10/1/2030           | 1,164,267                | 32,199 sa+            | 766,443                          | 56,699                     |
| Revenue Bond                                    | 3.00%          | 3/8/2013   | 1/1/2044            | 335,757                  | 3,885 sa+             | 294,352                          | 8,258                      |
| Revenue Bond                                    | 0.00%          | 2/20/2014  | 12/1/2040           | 6,875,801                | 137,516 sa+           | 5,663,009                        | 275,032                    |
| Revenue Bond                                    | 2.25%          | 11/4/2015  | 11/1/2046           | 801,752                  | 18,664 sa+            | 744,595                          | 20,288                     |
| Revenue Bond                                    | 1.45%          | 11/10/2016 | 1/1/2038            | 4,678,659                | 129,249 sa+           | 4,181,304                        | 198,586                    |
| Revenue Bond                                    | 0.00%          | 5/10/2019  | 8/1/2049            | 952,000                  | 15,867 sa+            | 618,140                          | 15,867                     |
| Revenue Bond                                    | 2.25%          | 6/27/2019  | 2/1/2050            | 3,034,870                | 70,663 sa+            | 693,403                          | -                          |
| Total VRA Bonds                                 |                |            |                     |                          |                       | <u>\$ 28,322,640</u>             | <u>\$ 1,709,473</u>        |
| <i>Notes Payable</i>                            |                |            |                     |                          |                       |                                  |                            |
| Town of Tazewell                                | 4.07%          | 10/30/2009 | 9/1/2041            | \$ 750,266               | \$ 3,612 m            | \$ 633,802                       | \$ 17,884                  |
| Town of Richlands                               | 0.00%          | 7/15/2005  | 1/1/2037            | 1,702,379                | 30,330 sa+            | 1,063,989                        | 60,660                     |
| Total Notes Payable                             |                |            |                     |                          |                       | <u>\$ 1,697,791</u>              | <u>\$ 78,544</u>           |
| <i>Refunding Bond</i>                           |                |            |                     |                          |                       |                                  |                            |
| National Bank                                   | 2.34%          | 7/24/2013  | 6/1/2034            | \$ 5,936,296             | Varies                | \$ 4,500,002                     | \$ 256,030                 |
| <b>Other long-term obligations:</b>             |                |            |                     |                          |                       |                                  |                            |
| Net OPEB liabilities                            |                |            |                     |                          |                       | \$ 778,365                       | \$ -                       |
| Net pension liability                           |                |            |                     |                          |                       | 972,557                          | -                          |
| Compensated absences                            |                |            |                     |                          |                       | 251,255                          | 188,441                    |
| Line of credit                                  |                |            |                     |                          |                       | 621,944                          | 621,944                    |
| Total other long-term obligations               |                |            |                     |                          |                       | <u>\$ 2,624,121</u>              | <u>\$ 810,385</u>          |
| Total long-term obligations                     |                |            |                     |                          |                       | <u>\$ 37,144,554</u>             | <u>\$ 2,854,432</u>        |

\*m = monthly including interest; sa+ = semiannually including interest, if applicable

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 5 - LONG-TERM OBLIGATIONS** (Continued)

The line of credit includes a limit of \$750,000 and a variable interest rate, which at June 30, 2019 was 5.50%. The line will be reviewed for renewal on an annual basis.

The revenue bonds are subject to a pledge of the system generated revenues. The revenues as received by the Authority are immediately subject to the lien of this pledge. Further, the Authority has agreed to fix and collect rates, fees, and other charges for the services as provided by the system so that each year the net revenues available for debt service will equal at least 100% of the amount required to pay the principal and interest costs of the bonds. The Authority agrees to monitor rates and immediately take action to increase its rates or reduce operation expenses if it fails to satisfy such requirements.

Events of default on the above revenue bonds include failure to pay any payment of principal or interest due under the agreement, failure to fund the required reserve funds, or failing to observe any other covenant including the above net revenue requirement.

In the event of default for the revenue bonds, at the discretion of the lender, all amounts owed under the bonds at the time of default, including principal, interest, and all other fees will become immediately due and payable. In addition, the lender may take any and all actions available to it under the laws of the Commonwealth of Virginia, including Section 62.1-216.1 of the Code of Virginia, to secure payment of the principal and interest of the bonds if such payment shall not be paid when it becomes due and payable.

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**Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019**

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**NOTE 6 - PENSION PLAN**

***Plan Description***

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

***Benefit Structures***

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.
- b. Employees hired on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.
- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 6 - PENSION PLAN** (Continued)

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

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

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

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

***Contributions***

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

The Authority's contractually required employer contribution rate for the year ended June 30, 2019 was 10.76% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$161,476 and \$155,242 for the years ended June 30, 2019 and June 30, 2018, respectively.

**Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019**

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**NOTE 6 - PENSION PLAN** (Continued)

***Net Pension Liability***

At June 30, 2019, the Authority reported a liability of \$972,557 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, and rolled forward to the measurement date of June 30, 2018. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2018 and 2017 as a basis for allocation. At June 30, 2018 and 2017, the Authority's proportion was 13.1010% and 12.8549%, respectively.

***Actuarial Assumptions - General Employees***

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

|                                       |   |
|---------------------------------------|---|
| Inflation                             | 2.5%  |
| Salary increases, including inflation | 3.5% - 5.35%  |
| Investment rate of return             | 7.0%, net of pension plan investment expenses, including inflation* |

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

**Mortality rates:**

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019**

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**NOTE 6 - PENSION PLAN (Continued)**

***Actuarial Assumptions - General Employees (continued)***

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related  
Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

**Largest 10 - Non-Hazardous Duty:**

|   |   |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020                           |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Lowered rates   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increased rate from 14% to 20%  |

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

|   |   |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020                           |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Lowered rates   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increased rate from 14% to 15%  |

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

**NOTE 6 - 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                 | 40.00%                   | 4.54%   | 1.82%   |
| Fixed Income                  | 15.00%                   | 0.69%   | 0.10%   |
| Credit Strategies             | 15.00%                   | 3.96%   | 0.59%   |
| Real Assets                   | 15.00%                   | 5.76%   | 0.86%   |
| Private Equity                | <u>15.00%</u>            | 9.53%   | <u>1.43%</u>  |
| Total                         | <u>100.00%</u>           |   | <u>4.80%</u>  |
|                               |                          | Inflation   | <u>2.50%</u>  |
|                               |                          | *Expected arithmetic nominal return                 | <u>7.30%</u>  |

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

***Discount Rate***

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

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 6 - PENSION PLAN (Continued)**

***Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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

|   | Discount Rate          |                    |                        |
|---|------------------------|--------------------|------------------------|
|   | 1% Decrease<br>(6.00%) | Current<br>(7.00%) | 1% Increase<br>(8.00%) |
| Authority's Proportionate Share<br>of the County Retirement Plan<br>Net Pension Liability (Asset) | \$ 1,924,417           | \$ 972,557         | \$ 180,649             |

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

For the year ended June 30, 2019, the Authority recognized pension expense of \$113,776. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience   | \$ 18,096                            | \$ 32,059                           |
| Change in assumptions  | -                                    | 9,172                               |
| Net difference between projected and actual earnings<br>on pension plan investments                              | -                                    | 56,391                              |
| Changes in proportion and differences between employer<br>contributions and proportionate share of contributions | 30,001                               | -                                   |
| Employer contributions subsequent to the<br>measurement date   | 161,476                              | -                                   |
| Total  | \$ 209,573                           | \$ 97,622                           |

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 6 - PENSION PLAN** (Continued)

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

\$161,476 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| <u>Year Ended June 30</u> |    |          |
|---------------------------|----|----------|
| 2020                      | \$ | 29,904   |
| 2021                      |    | (12,275) |
| 2022                      |    | (61,471) |
| 2023                      |    | (5,683)  |
| 2024                      |    | -        |
| Thereafter                |    | -        |

***Pension Plan Data***

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

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE**

***Plan Description***

In addition to the pension benefits described in Note 6, the Authority participates in a cost-sharing defined benefit healthcare plan, the Tazewell Post-Retirement Medical Plan (TPRMP). Several entities participate in the defined benefit healthcare plan through the County of Tazewell, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan. The benefit provisions, including employer and employee contributions, are governed by the Board of Supervisors and can be amended through board action. The TPRMP does not issue a publicly available financial report.

***Benefits Provided***

TPRMP provides health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for retirement benefits under VRS, which requires that the employee be (1) age 50 with 10 years of service; (2) age 55 with 5 years of service; or (3) age 65 with 5 years of service. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement. Coverage continues for the earlier of a period of fifteen years or reaching Medicare eligibility (age 65).

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE (Continued)**

***Contributions***

The Authority does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Authority. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2019 was \$34,303.

***Actuarial Assumptions***

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

|                    |  |
|--------------------|--|
| Salary Increases   | The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service   |
| Participation Rate | 53% of eligible employees will elect coverage upon retirement  |
| Discount Rate      | 3.62% for accounting and funding disclosures as of June 30, 2018   |
| Medical Trend Rate | Medical Per Capita costs, Average Costs and premiums are assumed to increase 6.00% for Pre-Medicare coverage in 2018/2019, decreasing at a rate of 0.5% per year until an ultimate rate of 5.00% is reached. |

Mortality is based on the RP-2014 Fully Generational Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2018.

The actuarial assumptions used in the July 1, 2018 valuation were based on July 1, 2017 valuation data rolled forward to the measurement date. The methods, assumptions, and participant data used can be found in the July 1, 2018 actuarial valuation report.

***Discount Rate***

The discount rate used to measure the total OPEB liability was 3.62% and represents the municipal GO AA 20-year yield curve rate as of the measurement date.

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Tazewell County Public Service Authority  
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Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE (Continued)**

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

|  | Discount Rate          |                    |                        |
|--|------------------------|--------------------|------------------------|
|  | 1% Decrease<br>(2.62%) | Current<br>(3.62%) | 1% Increase<br>(4.62%) |
| Authority's proportionate share of the County Health Insurance OPEB Plan | \$ 717,110             | \$ 661,000         | \$ 609,475             |

***Sensitivity of the Employer's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates***

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

|  | Healthcare Cost Trend Rates |                    |                        |
|--|-----------------------------|--------------------|------------------------|
|  | 1% Decrease<br>(5.00%)      | Current<br>(6.00%) | 1% Increase<br>(7.00%) |
| Authority's proportionate share of the County Health Insurance OPEB Plan | \$ 595,614                  | \$ 661,000         | \$ 737,307             |

***Total OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources***

At June 30, 2019, the Authority reported a liability of \$661,000 for its proportionate share of the total OPEB Liability. The total OPEB Liability was measured as of July 1, 2018 and the total OPEB liability used to calculate the total OPEB Liability was determined by an actuarial valuation as of July 1, 2018 and rolled forward to that date. At June 30, 2019 and 2018, the Authority's proportion was 3.50% and 4.87%, respectively.

For the year ended June 30, 2019, the Authority recognized OPEB expense in the amount of \$(9,000).

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Tazewell County Public Service Authority  
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Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE (Continued)**

***Total OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)***

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

|  | Deferred Outflows<br>of Resources | Deferred Outflows<br>of Resources |
|--|-----------------------------------|-----------------------------------|
| Differences between expected and actual experience                               | \$ -                              | \$ 117,576                        |
| Change in assumptions  | -                                 | 23,872                            |
| Net difference between projected and actual earnings<br>on OPEB plan investments | -                                 | -                                 |
| Employer contributions subsequent to the<br>measurement date                     | 34,303                            | -                                 |
| Total  | \$ 34,303                         | \$ 141,448                        |

\$34,303 reported as 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB will be recognized in the OPEB expense in future reporting periods as follows:

| Year Ended June 30 |             |
|--------------------|-------------|
| 2020               | \$ (28,913) |
| 2021               | (28,913)    |
| 2022               | (28,913)    |
| 2023               | (28,913)    |
| 2024               | (25,796)    |
| Thereafter         | -           |

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

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Tazewell County Public Service Authority  
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Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN)**

***Plan Description***

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

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI 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.

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

***Eligible Employees***

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

***Benefit Amounts***

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

Tazewell County Public Service Authority  
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Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

**Contributions**

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$8,066 and \$7,853 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the entity reported a liability of \$117,365 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was 0.007728% as compared to 0.007901% at June 30, 2017.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience                                   | \$ 5,785                          | \$ 2,057                         |
| Net difference between projected and actual earnings on GLI OPEB program investments | -                                 | 3,856                            |
| Change in assumptions  | -                                 | 4,885                            |
| Changes in proportion  | -                                 | 5,913                            |
| Employer contributions subsequent to the measurement date                            | 8,066                             | -                                |
| Total  | \$ 13,851                         | \$ 16,711                        |

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB (continued)***

\$8,066 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> |    |         |
|---------------------------|----|---------|
| 2020                      | \$ | (2,957) |
| 2021                      |    | (2,957) |
| 2022                      |    | (2,957) |
| 2023                      |    | (1,928) |
| 2024                      |    | (386)   |
| Thereafter                |    | 259     |

***Actuarial Assumptions***

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

|  |  |
|--|--|
| Inflation                              | 2.5%   |
| Salary increases, including inflation: |  |
| General state employees                | 3.5%-5.35%   |
| Teachers                               | 3.5%-5.95%   |
| SPORS employees                        | 3.5%-4.75%   |
| VaLORS employees                       | 3.5%-4.75%   |
| JRS employees                          | 4.5%   |
| Locality - General employees           | 3.5%-5.35%   |
| Locality - Hazardous Duty employees    | 3.5%-4.75%   |
| Investment rate of return              | 7.0%, net of investment expenses, including inflation* |

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

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

*Actuarial Assumptions: (Continued)*

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

|   |  |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020                  |
| Retirement Rates  | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year       |
| Disability Rates  | Lowered disability rates   |
| Salary Scale  | No change  |
| Line of Duty Disability   | Increased rate from 14% to 20%   |

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Tazewell County Public Service Authority  
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Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

*Actuarial Assumptions: (Continued)*

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

|   |  |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020                  |
| Retirement Rates  | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year       |
| Disability Rates  | Lowered disability rates   |
| Salary Scale  | No change  |
| Line of Duty Disability   | Increased rate from 14% to 15%   |

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Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

***Net GLI OPEB Liability***

The net OPEB liability (NOL) for the GLI Program represents 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, 2018, NOL amounts for the GLI Program are as follows (amounts expressed in thousands):

|  |    | <b>GLI OPEB<br/>Program</b> |
|--|----|-----------------------------|
| Total GLI OPEB Liability   | \$ | 3,113,508                   |
| Plan Fiduciary Net Position  |    | <u>1,594,773</u>            |
| Employers' Net GLI OPEB Liability (Asset)                                      | \$ | <u><u>1,518,735</u></u>     |
| Plan Fiduciary Net Position as a Percentage<br>of the Total GLI OPEB Liability |    | 51.22%                      |

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

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Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

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

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

| <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                 | 40.00%                   | 4.54%   | 1.82%   |
| Fixed Income                  | 15.00%                   | 0.69%   | 0.10%   |
| Credit Strategies             | 15.00%                   | 3.96%   | 0.59%   |
| Real Assets                   | 15.00%                   | 5.76%   | 0.86%   |
| Private Equity                | <u>15.00%</u>            | 9.53%   | <u>1.43%</u>  |
| Total                         | <u>100.00%</u>           |   | <u>4.80%</u>  |
|                               |                          | Inflation   | <u>2.50%</u>  |
|                               |                          | *Expected arithmetic nominal return                 | <u>7.30%</u>  |

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

***Discount Rate***

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

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)**

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

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

|  | Rate                   |                             |                        |
|--|------------------------|-----------------------------|------------------------|
|  | 1% Decrease<br>(6.00%) | Current Discount<br>(7.00%) | 1% Increase<br>(8.00%) |
| Authority's proportionate share of the GLI Program |                        |                             |                        |
| Net OPEB Liability                                 | \$ 153,359             | \$ 117,365                  | \$ 88,056              |

***GLI Program Fiduciary Net Position***

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**NOTE 9 - OPEB SUMMARY**

|  | Deferred<br>Outflows | Deferred<br>Inflows | Net OPEB<br>Liability | OPEB<br>Expense |
|--|----------------------|---------------------|-----------------------|-----------------|
| Stand-Alone Health Insurance Plan (Note 7) | \$ 34,303            | \$ 141,448          | \$ 661,000            | \$ (9,000)      |
| VRS OPEB Plans:                            |                      |                     |                       |                 |
| VRS Group Life (Note 8)                    | 13,851               | 16,711              | 117,365               | 514             |
| Totals                                     | \$ 48,154            | \$ 158,159          | \$ 778,365            | \$ (8,486)      |

**NOTE 10 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Commonwealth to form the Virginia Association of Counties Self Insurance Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for all of its insurance coverage. The Agreement for formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three years.

**NOTE 11 - ADMINISTRATIVE COSTS**

For the year ending June 30, 2019, the administrative costs amounted to \$382,391. This amount includes office and administration wages, fringe benefits on these wages, and office supplies.

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2019**

**NOTE 12 - CONTINGENCIES**

Federal programs in which the Authority participates were audited in accordance with the provisions of Uniform Guidance. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

As of June 30, 2019, the Authority was in the process of constructing a debt financed water storage tank. The Town of Tazewell, Virginia has agreed to share in the storage tank as well as the costs related to same. This agreement has not been recorded as a receivable in the Authority's records as the final cost and amount not be reimbursed have not been determined.

**NOTE 13 - COMMITMENTS**

At June 30, 2019, the Authority had the following outstanding construction commitments:

| <u>Project</u>  | <u>Amount of<br/>Contract</u> | <u>Amount of<br/>Contract<br/>Outstanding</u> | <u>Accounts<br/>Payable</u> | <u>Retainage<br/>Payable</u> |
|---|-------------------------------|---|-----------------------------|------------------------------|
| Construction in Progress   Engineering                | \$ 44,500                     | \$ 560  | \$ 21,791                   | \$ -                         |
| Construction in Progress   Construction               | 1,717,000                     | 1,717,000                                     | -                           | -                            |
| Greater Tazewell to Pocahontas (Phase IV) Engineering | 282,856                       | 75,158  | 56,138                      | -                            |
| Greater Tazewell to Pocahontas (Phase IV)             | 1,017,258                     | 230,597                                       | 95,768                      | 39,333                       |
| Greater Tazewell to Pocahontas (Phase IV)             | 1,313,859                     | 751,527                                       | 100,161                     | 28,117                       |
| Total   | <u>\$ 4,375,473</u>           | <u>\$ 2,774,842</u>                           | <u>\$ 273,858</u>           | <u>\$ 67,450</u>             |

**NOTE 14 - NON-EXCHANGE FINANCIAL GUARANTEES**

Tazewell County has provided a moral obligation to back all debt of the Authority and, accordingly, makes annual contributions to the Authority for debt service. Tazewell County does not have a set contribution plan nor is there an amount agreed to in writing. The County annually appropriates a contribution to aid the Authority in repayment of debt service. In fiscal year 2019, the Tazewell County contributed \$1,043,037 to help the Authority pay its debt service.

**NOTE 15 - ADOPTION OF ACCOUNTING PRINCIPLES**

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

The Authority early implemented provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* during the fiscal year ended June 30, 2019. This Statement simplifies accounting for interest cost incurred before the end of a construction period. Interest cost incurred during construction is expensed and no longer capitalized as part of project costs. No restatement was required as a result of this implementation.

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Notes to Financial Statements (Continued)  
At June 30, 2019

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**NOTE 16 - SUBSEQUENT EVENTS**

On August 1, 2019, the Authority made a principal only payment of \$350,000 towards the open line of credit.

**NOTE 17 - UPCOMING PRONOUNCEMENTS**

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

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

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

## **Required Supplementary Information**

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Schedule of Authority's Proportionate Share of the Net Pension Liability  
For the Measurement Dates of June 30, 2014 through June 30, 2018

**Authority's Share of Tazewell County, Virginia's Pension Plan (a cost-sharing multiple employer plan administered by VRS)**

| Date<br>(1) | Proportion of<br>the Net Pension<br>Liability<br>(NPL)<br>(2) | Proportionate<br>Share of the NPL<br>(3) | Covered<br>Payroll<br>(4) | Proportionate<br>Share of the NPL<br>as a Percentage of<br>Covered Payroll<br>(3)/(4)<br>(5) | Pension Plan's<br>Fiduciary Net<br>Position as a<br>Percentage of Total<br>Pension Liability<br>(6) |
|-------------|---|--|---------------------------|--|---|
| 2018        | 13.1010%  | \$ 972,557                               | \$ 1,472,884              | 66.03%   | 87.15%  |
| 2017        | 12.8549%  | 1,031,809                                | 1,434,412                 | 71.93%   | 85.72%  |
| 2016        | 12.6371%  | 1,297,886                                | 1,445,364                 | 89.80%   | 81.05%  |
| 2015        | 12.4200%  | 915,932                                  | 1,510,355                 | 60.64%   | 85.61%  |
| 2014        | 12.4200%  | 774,678                                  | 1,475,578                 | 52.50%   | 87.18%  |

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

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Schedule of Employer Contributions  
For the Years Ended June 30, 2015 through June 30, 2019

Authority's Share of Tazewell County, Virginia's Pension Plan (a cost-sharing multiple employer plan administered by VRS)

| Date | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|---|---|---|---|
| 2019 | \$ 161,476                                       | \$ 161,476  | \$ -  | \$ 1,551,202                            | 10.41%  |
| 2018 | 155,242  | 155,242   | -   | 1,472,884                               | 10.54%  |
| 2017 | 151,187  | 151,187   | -   | 1,434,412                               | 10.54%  |
| 2016 | 162,748  | 162,748   | -   | 1,445,364                               | 11.26%  |
| 2015 | 170,066  | 170,066   | -   | 1,510,355                               | 11.26%  |

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, prior data was not available. However, additional years will be included as they become available.

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2019**

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Largest 10 - Non-Hazardous Duty:**

|  |   |
|--|---|
| Mortality Rates (pre-retirement, post- | Updated to a more current mortality table - RP-2014 projected to 2020                           |
| Retirement Rates                       | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates                       | Adjusted rated to better fit experience at each year age and service through 9 years of service |
| Disability Rates                       | Lowered rates   |
| Salary Scale                           | No change   |
| Line of Duty Disability                | Increased rate from 14% to 20%  |

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

|  |   |
|--|---|
| Mortality Rates (pre-retirement, post- | Updated to a more current mortality table - RP-2014 projected to 2020                           |
| Retirement Rates                       | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates                       | Adjusted rated to better fit experience at each year age and service through 9 years of service |
| Disability Rates                       | Lowered rates   |
| Salary Scale                           | No change   |
| Line of Duty Disability                | Increased rate from 14% to 15%  |

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Schedule of Authority's Share of Net OPEB Liability  
Group Life Insurance Program  
For the Measurement Dates of June 30, 2018 and 2017

| Date<br>(1) | Employer's<br>Proportion of the<br>Net GLI OPEB<br>Liability (Asset)<br>(2) | Employer's<br>Proportionate<br>Share of the<br>Net GLI OPEB<br>Liability (Asset)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Employer's<br>Proportionate Share<br>of the Net GLI OPEB<br>Liability (Asset)<br>as a Percentage of<br>Covered Payroll<br>(3)/(4)<br>(5) | Plan Fiduciary<br>Net Position as a<br>Percentage of Total<br>GLI OPEB Liability<br>(6) |
|-------------|---|---|---|--|---|
| 2018        | 0.007728% \$  | 117,365 \$  | 1,472,884                               | 7.97%  | 51.22%  |
| 2017        | 0.007901%   | 118,863   | 1,434,412                               | 8.29%  | 48.86%  |

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

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Schedule of Employer Contributions**  
**Group Life Insurance Program**  
**For the Years Ended June 30, 2017 through June 30, 2019**

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| Date | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|---|---|---|---|
| 2019 | \$ 8,066   | \$ 8,066  | \$ -  | \$ 1,551,202                            | 0.53%   |
| 2018 | 7,853  | 7,853   | -   | 1,472,884                               | 0.53%   |
| 2017 | 7,581  | 7,581   | -   | 1,434,412                               | 0.53%   |

Schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, prior data was not available. However, additional years will be included as they become available.

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Required Supplementary Information**  
**Group Life Insurance Program**  
**For the Year Ended June 30, 2019**

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Largest Ten Locality Employers - General Employees**

|   |  |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020                  |
| Retirement Rates  | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year       |
| Disability Rates  | Lowered disability rates   |
| Salary Scale  | No change  |
| Line of Duty Disability   | Increased rate from 14% to 20%   |

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

|   |  |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020                  |
| Retirement Rates  | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year       |
| Disability Rates  | Lowered disability rates   |
| Salary Scale  | No change  |
| Line of Duty Disability   | Increased rate from 14% to 15%   |

Tazewell County Public Service Authority  
(A Component Unit of Tazewell County, Virginia)  
Schedule of Authority's Proportionate Share of the Net OPEB Liability  
Health Insurance  
For the Measurement Dates of July 1, 2016 through July 1, 2018

| Date<br>(1) | Proportion of<br>the Net OPEB<br>Liability<br>(NPL)<br>(2) | Proportionate<br>Share of the NOL<br>(3) | Covered<br>Payroll<br>(4) | Proportionate<br>Share of the NOL<br>as a Percentage of<br>Covered Payroll<br>(3)/(4)<br>(5) | Pension Plan's<br>Fiduciary Net<br>Position as a<br>Percentage of Total<br>OPEB Liability<br>(6) |
|-------------|--|--|---------------------------|--|--|
| 2018        | 3.50% \$   | 661,000                                  | \$ 1,334,636              | 49.53%   | 0.00%  |
| 2017        | 4.87%  | 1,119,000                                | 1,472,884                 | 75.97%   | 0.00%  |
| 2016        | 4.73%  | 1,088,000                                | 1,434,412                 | 75.85%   | 0.00%  |

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Schedule of Employer Contributions**  
**Health Insurance**

For the Years Ended June 30, 2017 through June 30, 2019

| Date | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|---|---|---|---|
| 2019 | \$ 34,303  | \$ 34,303   | \$ -  | \$ 1,334,636                            | 2.57%   |
| 2018 | 41,000   | 41,000  | -   | 1,472,884                               | 2.78%   |
| 2017 | 41,000   | 41,000  | -   | 1,434,412                               | 2.86%   |

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

**Tazewell County Public Service Authority**  
**(A Component Unit of Tazewell County, Virginia)**  
**Notes to Required Supplementary Information**  
**Health Insurance**  
**For the Year Ended June 30, 2019**

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Valuation Date: 7/1/2018  
 Measurement Date: 7/1/2018

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

*Methods and assumptions used to determine OPEB liability:*

|                       |   |
|-----------------------|---|
| Salary Increase Rates | The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service.                                 |
| Participation Rate    | 53% of eligible employees will elect coverage upon retirement, 100% of same employees are expected to carry a spouse in the plan  |
| Discount Rate         | 3.62% for accounting and funding disclosures  |
| Medical Trend Rate    | 6.00% for fiscal year 2019, decreasing 0.50% per year to an ultimate rate of 5.00%  |
| Mortality Rates       | The mortality rates for active and healthy retirees was calculated using the RPH-2014 Fully Generational Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2018. |

## **Other Statistical Information**

Table 1

Tazewell County Public Service Authority  
 (A Component Unit of Tazewell County, Virginia)  
 Virginia Resource Authority (VRA) Rate Covenant Compliance  
 Last Ten Fiscal Years (1)

| Fiscal Year | Revenues     | Operation and<br>Maintenance<br>Expenses | Net Revenues<br>Available for Debt<br>Services | Debt Service | Coverage (2) |
|-------------|--------------|--|--|--------------|--------------|
| 2018-19     | \$ 8,232,245 | \$ 5,153,244                             | \$ 3,079,001                                   | \$ 2,395,115 | 128.55%      |
| 2017-18     | 7,763,431    | 5,201,005                                | 2,562,426                                      | 2,170,709    | 118.05%      |
| 2016-17     | 7,709,347    | 4,993,259                                | 2,716,088                                      | 2,678,428    | 101.41%      |

(1) Only three years available

(2) Net revenues available for debt service/debt service (100% required for compliance)

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## COMPLIANCE SECTION

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

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To the Board Members of  
Tazewell County Public Service Authority  
Tazewell, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Tazewell County Public Service Authority, a component unit of Tazewell County, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Tazewell County Public Service Authority's basic financial statements and have issued our report thereon dated November 14, 2019.

**Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tazewell County Public Service Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robinson, Famer, Cox Associates*

Blacksburg, Virginia  
November 14, 2019



**Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by the Uniform Guidance**

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**To the Board Members of  
Tazewell County Public Service Authority  
Tazewell, Virginia**

**Report on Compliance for Each Major Federal Program**

We have audited Tazewell County Public Service Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. Tazewell County Public Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Tazewell County Public Service Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Tazewell County Public Service Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Tazewell County Public Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## Report on Internal Control over Compliance

Management of Tazewell County Public Service Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Tazewell County Public Service Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Blacksburg, Virginia  
November 14, 2019

Tazewell County Public Service Authority  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

| Federal Grantor/State Pass-Through Grantor/<br>Program or Cluster Title  | Federal<br>CFDA<br>Number | Pass-Through Entity<br>Identifying<br>Number | Federal<br>Expenditures |
|--|---------------------------|--|-------------------------|
| Environmental Protection Agency:<br>Pass-through payments:<br>Virginia Resource Authority:<br>Clean Water State Revolving Fund Cluster:<br>Capitalization Grants for Clean Water State Revolving Funds | 66.458                    | Not available                                | \$ 625,994              |
| Department of Housing and Urban Development<br>Pass Through Payments:<br>Town of Pocahontas, Virginia<br>Community Development Block Grants/State's Program<br>and Non-entitlement Grants in Hawaii    | 14.228                    | 50797  | \$ 1,009,917            |
| Total Expenditures of Federal Awards   |                           |  | \$ 1,635,911            |

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Tazewell County Public Service Authority under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2 -- Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Note 3 -- Subrecipients

No awards were passed through to subrecipients.

Note 4 -- De Minimis Cost Rate

The Authority did not elect to use the 10 percent de minimis indirect cost rate as it typically only requests direct costs for reimbursement.

Note 5 -- Relationship to the Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Authority's basic financial statements as follows:

|  |              |
|--|--------------|
| Loans  | \$ 2,311,272 |
| (Less state loans included in the above)                   | (1,685,278)  |
| Capital Contributions                                      | 2,496,432    |
| (Less state and local contributions included in the above) | (1,486,515)  |
| Total federal expenditures per financial statements        | \$ 1,635,911 |

Tazewell County Public Service Authority  
 (A Component Unit of Tazewell County, Virginia)  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2019

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**Section I - Summary of Auditors' Results**

**Financial Statements**

|   |               |
|---|---------------|
| Type of auditors' report issued:                      | Unmodified    |
| Internal control over financial reporting:            |               |
| Material weakness(es) identified?                     | No            |
| Significant deficiency(ies) identified?               | None reported |
| Noncompliance material to financial statements noted? | No            |

**Federal Awards**

|  |               |
|--|---------------|
| Internal control over major programs:  |               |
| Material weaknesses identified?  | No            |
| Significant deficiencies identified?   | None reported |
| Type of auditors' report issued on compliance for major programs:  | Unmodified    |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? | No            |

Identification of major programs:

| CFDA # | Name of Federal Program or Cluster  |
|--------|---|
| 14.228 | Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii |

|  |           |
|--|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| Auditee qualified as low-risk auditee?                                   | Yes       |

**Section II - Financial Statement Findings**

There are no financial statement findings to report.

**Section III - Federal Award Findings and Questioned Costs**

There are no federal award findings or questioned costs to report.

**Section IV - Status of Prior Audit Findings**

There are no prior year findings.