

**NRV REGIONAL  
WATER AUTHORITY**

**FINANCIAL REPORT**

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



**NRV REGIONAL WATER AUTHORITY**

**RADFORD, VIRGINIA**

**FINANCIAL REPORT**

*For the Fiscal Year Ended  
June 30, 2019*



# NRV REGIONAL WATER AUTHORITY

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## INTRODUCTORY SECTION

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**NRV REGIONAL WATER AUTHORITY**

**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2019**

**BOARD OF DIRECTORS**

Sherwood G. Wilson, Chairman

Marc A. Verniel, Vice Chairman

Wayne O. Nelson, Secretary

F. Craig Meadows, Treasurer

William R. Knocke

**EXECUTIVE DIRECTOR**

Caleb Taylor, PE

**INDEPENDENT AUDITORS**

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



## **FINANCIAL SECTION**

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



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors  
NRV Regional Water Authority  
Radford, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the NRV Regional Water Authority (the "Authority") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express 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 *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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 NRV Regional Water Authority, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on the Financial Statements (Continued)**

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the pension and other postemployment benefits related required supplementary information, as listed in the table of contents, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not modified with respect to this matter.

#### ***Report on Summarized Comparative Information***

We have previously audited the Authority's 2018 financial statements, and our report dated October 16, 2018 expressed an unmodified opinion on the financial statements of the Authority. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory and other information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and other information sections 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 October 24, 2019 on our consideration of the 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 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 the Authority's internal control over financial reporting and compliance.

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2019  
Roanoke, Virginia

# FINANCIAL STATEMENTS

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**NRV REGIONAL WATER AUTHORITY**  
**STATEMENT OF NET POSITION**  
**June 30, 2019**

	<b>2019</b>	<b>(For Comparative Purposes Only) 2018</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	\$ 7,840,380	\$ 4,874,108
Accounts receivable (Note 3)	2,219,350	1,827,230
Inventory	31,560	42,560
Prepays	90,713	25,555
Total current assets	<u>10,182,003</u>	<u>6,769,453</u>
<b>Noncurrent assets</b>		
Cash and cash equivalents, restricted (Note 2)	551,219	3,010,228
Capital contribution receivable (Note 4)	1,164,700	1,187,996
Capital assets, net (Note 5)	18,314,875	15,622,514
Total noncurrent assets	<u>20,030,794</u>	<u>19,820,738</u>
Total assets	<u>30,212,797</u>	<u>26,590,191</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	103,216	109,567
Deferred outflows related to pensions (Note 7)	378,281	493,814
Deferred outflows related to other postemployment benefits (Note 8 and 9)	393,532	6,088
Total deferred outflows of resources	<u>875,029</u>	<u>609,469</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	425,192	1,023,242
Interest payable	60,017	61,839
Compensated absences (Note 6)	86,805	76,450
Current maturities of long-term debt (Note 6)	155,000	150,000
Total current liabilities	<u>727,014</u>	<u>1,311,531</u>
<b>Long-term liabilities</b>		
Compensated absences (Note 6)	260,413	229,351
Long-term debt – due in more than one year (Note 6)	5,403,985	5,579,698
Net pension liability (Note 7)	2,637,022	2,868,490
Net other postemployment benefit liabilities (Notes 8 and 9)	1,896,396	1,463,220
Total long-term liabilities	<u>10,197,816</u>	<u>10,140,759</u>
Total liabilities	<u>10,924,830</u>	<u>11,452,290</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions (Note 7)	209,636	134,047
Deferred inflows related to other postemployment benefits (Note 8 and 9)	18,173	19,702
Total deferred inflows of resources	<u>227,809</u>	<u>153,749</u>
<b>NET POSITION</b>		
Net investment in capital assets	13,410,325	13,012,611
Unrestricted	6,524,862	2,581,010
Total net position	<u>\$ 19,935,187</u>	<u>\$ 15,593,621</u>

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

**NRV REGIONAL WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Year Ended June 30, 2019**

	<b>2019</b>	<b>(For Comparative Purposes Only) 2018</b>
	<hr/>	<hr/>
<b>OPERATING REVENUES</b>		
Water sales (Note 3)	\$ 9,170,032	\$ 7,451,269
Other	4,336	17,910
	<hr/>	<hr/>
Total operating revenues	9,174,368	7,469,179
	<hr/>	<hr/>
<b>OPERATING EXPENSES</b>		
Water systems	1,399,528	1,271,828
Depreciation	616,474	591,342
Salaries and employee benefits	2,221,571	1,974,420
Management and general	76,800	103,137
Vehicles	29,882	29,863
Engineering, operations, and maintenance	275,142	208,289
	<hr/>	<hr/>
Total operating expenses	4,619,397	4,178,879
	<hr/>	<hr/>
Operating income	4,554,971	3,290,300
	<hr/>	<hr/>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Loss on disposal of capital assets	(152,556)	(3,632)
Interest income	166,681	113,861
Interest expense	(227,530)	(41,518)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(213,405)	68,711
	<hr/>	<hr/>
Change in net position	4,341,566	3,359,011
Net position – beginning at July 1	15,593,621	12,234,610
	<hr/>	<hr/>
Net position – ending at June 30	\$ 19,935,187	\$ 15,593,621
	<hr/> <hr/>	<hr/> <hr/>

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

**NRV REGIONAL WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2019**

		(For Comparative Purposes Only)
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 8,777,912	\$ 6,969,804
Cash received from other sources	4,336	420,194
Cash paid for goods and services	(1,858,595)	(1,626,031)
Cash paid to employees	(2,176,297)	(1,944,737)
Net cash provided by operating activities	4,747,356	3,819,230
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions received	23,296	23,297
Acquisition and construction of capital assets	(4,039,517)	(3,909,846)
Principal paid on long-term borrowings	(150,000)	(140,000)
Interest paid on long-term borrowings	(243,714)	(250,475)
Proceeds from sale of capital assets	3,161	27,000
Net cash used in capital and related financing activities	(4,406,774)	(4,250,024)
<b>INVESTING ACTIVITIES</b>		
Interest received	166,681	113,861
Net increase (decrease) in cash and cash equivalents	507,263	(316,933)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning at July 1	7,884,336	8,201,269
Ending at June 30	<u>\$ 8,391,599</u>	<u>\$ 7,884,336</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	\$ 7,840,380	\$ 4,874,108
Cash and cash equivalents, restricted	551,219	3,010,228
	<u>\$ 8,391,599</u>	<u>\$ 7,884,336</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 4,554,971	\$ 3,290,300
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	616,474	591,342
Pension expense net of employer contributions	(40,346)	(40,320)
Other postemployment benefit expense net of employer contributions	44,203	16,963
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(392,120)	(481,465)
Due from other governments	-	394,388
Other receivables	-	7,896
Inventory	11,000	(21,703)
Prepays	(65,158)	(9,021)
Increase (decrease) in:		
Accounts payable and accrued expenses	(23,085)	17,810
Compensated absences	41,417	53,040
Net cash provided by operating activities	<u>\$ 4,747,356</u>	<u>\$ 3,819,230</u>
<b>SCHEDULE OF NONCASH ACTIVITIES</b>		
Capital asset purchases included in accounts payable	\$ 299,269	\$ 874,234
Capitalized interest	<u>\$ -</u>	<u>\$ 192,202</u>

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

## NRV REGIONAL WATER AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2019

#### Note 1. Summary of Significant Accounting Policies

##### Reporting entity

The NRV Regional Water Authority (the “Authority”) is the successor entity to the Blacksburg-Christiansburg-VPI Water Authority which was originally chartered in 1955 to operate and maintain a water supply system for the Towns of Blacksburg and Christiansburg and for Virginia Polytechnic Institute and State University. The County of Montgomery joined the Authority pursuant to a joinder agreement dated June 18, 2013, which called for the name of the Authority to be changed to NRV Regional Water Authority.

The Authority is a primary government with no component units and is governed by a Board of Directors consisting of one representative appointed by each of the members. The Authority is a jointly governed organization of the four members listed herein, however, it is not a component unit of any of the participating members. The participating members do have a financial interest in and responsibility to the Authority.

##### Measurement focus and basis of accounting

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

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

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

##### Cash and cash equivalents

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

##### Accounts receivable

Water sales to members are billed quarterly. Given the Authority’s relationship with its members and prior history, no allowance has been established for uncollectible accounts.

(Continued)

## NRV REGIONAL WATER AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2019

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Inventory

Inventory consists of pumps, valves, parts, pipes, and supplies reported at the lower of cost (first-in, first-out) or market. Inventory is generally used for construction and for operation and maintenance work and is not held for resale. Costs of inventory are charged to construction or operations when used.

##### Capital assets

Capital assets are stated at cost, except for donated assets, which are recorded at fair value at the date of acquisition. The threshold for recording capital assets is \$5,000. Depreciation is computed using the straight-line method over useful lives as follows:

Buildings	15-50 years
Plants	20-50 years
Valves and equipment	5-30 years
Trucks	5-7 years
Furniture and fixtures	5-10 years
Dewatering facilities and basins	15-50 years

##### Compensated absences

The Authority has policies to allow the accumulation and vesting of limited amounts of vacation, sick, compensatory, and paid time off leave until termination or retirement. Amounts of such absences are accrued when incurred.

The Authority has adopted a retirement health savings plan for the benefit of its employees. Under this plan, employees retiring from service will be eligible to have 60% of unused sick leave contributed by the Authority to a retirement health savings account to be used for payment of qualified medical expenses.

##### Pensions and Other Postemployment Benefits (OPEB)

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

(Continued)

## NRV REGIONAL WATER AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2019

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Deferred outflows/inflows of resources

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

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

##### Net position

Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt and related deferred inflows or outflows of resources related to the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes debt associated with unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws, or regulations of other governments.

##### Estimates

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

#### 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.

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**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, 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). At June 30, the Authority maintained no investments.

The Authority has bond proceeds invested in the Virginia State Non-Arbitrage Program (SNAP). SNAP is a 2a-7 like pool designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. These programs provide comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia local governments.

Investments in the SNAP accounts consist of money market funds in the amount of \$551,219 stated at cost, which approximates fair value. These funds are classified as cash and cash equivalents, restricted, in the statement of net position.

Cash and cash equivalents restrictions

**Unspent Bond Proceeds.** A bond in the amount of \$3,745,000 was issued on June 27, 2013 to finance certain improvements to its water distribution system, including the completion of its Christiansburg Pump Station and the installation of the Prices Fork Western Transmission Line, and other water system improvements. Unspent bond proceeds plus interest earnings amounted to \$551,219 at June 30, 2019. This amount is included with the associated debt in the net position classification, net investment in capital assets.

**Note 3. Accounts Receivable and Water Sales**

Accounts receivable and water sales were as follows:

	<u>Accounts Receivable</u>	<u>Revenues</u>
Town of Blacksburg	\$ 883,450	\$ 3,570,724
Town of Christiansburg	735,098	3,152,355
Virginia Tech	204,152	1,656,925
County of Montgomery	396,650	790,028
	<u>\$ 2,219,350</u>	<u>\$ 9,170,032</u>

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 4. Capital Contribution Receivable**

The County of Montgomery provided a capital contribution when it joined the Authority payable over forty years in annual installments of \$47,522, including interest at a rate of two percent.

The annual principal and related interest requirements are as follows:

<b>Fiscal Year</b>	<b>Capital Contribution</b>	
	<b>Principal</b>	<b>Interest</b>
2020	\$ 24,238	\$ 23,284
2021	24,723	22,800
2022	25,217	22,305
2023	25,721	21,801
2024	26,236	21,287
2025-2029	139,263	98,350
2030-2034	153,757	83,855
2035-2039	169,760	67,852
2040-2044	187,429	50,183
2045-2049	206,937	30,675
2050-2053	181,419	9,137
	<u>\$ 1,164,700</u>	<u>\$ 451,529</u>

(Continued)



**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 5. Capital Assets**

Capital asset activity for the year was as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets, not being depreciated:				
Land	\$ 325,924	\$ 469,047	\$ (154,800)	\$ 640,171
Construction in progress	5,581,811	3,428,289	(5,642,401)	3,367,699
Total capital assets, not being depreciated	<u>5,907,735</u>	<u>3,897,336</u>	<u>(5,797,201)</u>	<u>4,007,870</u>
Capital assets, being depreciated:				
Buildings	282,307	1,100,000	-	1,382,307
Plants	19,231,482	-	-	19,231,482
Pumps, valves and equipment	3,011,284	4,062,176	(18,109)	7,055,351
Trucks	216,772	47,441	(22,606)	241,607
Furniture and fixtures	38,378	-	(16,704)	21,674
Dewatering facilities and basins	929,543	-	-	929,543
Total capital assets, being depreciated	<u>23,709,766</u>	<u>5,209,617</u>	<u>(57,419)</u>	<u>28,861,964</u>
Less accumulated depreciation for:				
Building	(111,866)	(27,865)	-	(139,731)
Plant	(11,960,925)	(475,772)	-	(12,436,697)
Pumps, valves and equipment	(1,387,552)	(70,074)	17,192	(1,440,434)
Trucks	(190,262)	(24,785)	22,606	(192,441)
Furniture and fixtures	(38,378)	-	16,704	(21,674)
Dewatering facilities and basins	(306,004)	(17,978)	-	(323,982)
Total accumulated depreciation	<u>(13,994,987)</u>	<u>(616,474)</u>	<u>56,502</u>	<u>(14,554,959)</u>
Total capital assets being depreciated, net	<u>9,714,779</u>	<u>4,593,143</u>	<u>(917)</u>	<u>14,307,005</u>
Total capital assets, net	<u>\$ 15,622,514</u>	<u>\$ 8,490,479</u>	<u>\$ (5,798,118)</u>	<u>\$ 18,314,875</u>

Construction commitments

The Authority has several construction contracts outstanding as of June 30, 2019. The Joinder Project (Prices Fork) has a contract amount of approximately \$4,000,000 and outstanding commitment amount of approximately \$1,000,000. The expected completion date of this project is August 2019. A second Joinder Project (Plum Creek) has three contract amounts of \$2,500,000, \$4,000,000, and \$2,400,000. The expected completion date of this project is 2021.

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 6. Long-Term Liabilities**

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

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 5,495,000	\$ -	\$ (150,000)	\$ 5,345,000	\$ 155,000
Bond premiums	234,698	-	(20,713)	213,985	-
Compensated absences	305,801	117,867	(76,450)	347,218	86,805
	<u>\$ 6,035,499</u>	<u>\$ 117,867</u>	<u>\$ (247,163)</u>	<u>\$ 5,906,203</u>	<u>\$ 241,805</u>

The annual requirements to amortize bond principal and related interest are as follows:

<u>Fiscal Year</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 155,000	\$ 240,069
2021	160,000	232,525
2022	165,000	224,622
2023	180,000	216,388
2024	185,000	207,994
2025-2029	1,065,000	899,188
2030-2034	1,315,000	639,831
2035-2039	1,110,000	356,516
2040-2044	1,010,000	120,713
	<u>\$ 5,345,000</u>	<u>\$ 3,137,846</u>

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding</u>
<b><u>Revenue Bonds:</u></b>					
Virginia Resources Authority					
Water System Revenue Bonds	3.46-4.88%	06/27/13	10/01/43	3,745,000	\$ 3,410,000
Water System Revenue Bonds	1.73-5.13%	08/13/14	10/01/35	2,170,000	1,935,000
					5,345,000
				Plus unamortized bond premiums	213,985
					<u>\$ 5,558,985</u>

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 6. Long-Term Liabilities (Continued)**

**Prior Year Defeasance of Debt**

In 2015, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds through their maturity date. The deferred costs are being amortized over the life of the new bonds as a component of interest expense. As a result, the liability for those bonds has been removed from the financial statements. At June 30, \$2,000,000 of bonds remains outstanding.

**Note 7. Defined Benefit Pension Plan**

**Plan Description**

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

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

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

**Employees Covered by Benefit Terms**

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u><b>Number</b></u>
Inactive members or their beneficiaries currently receiving benefits	14
Active members	<u>18</u>
Total covered employees	<u><u>32</u></u>

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Contributions**

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2019 was 17.71% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$235,672 and \$287,542 for the years ended June 30, 2019 and June 30, 2018, respectively.

**Net Pension Liability**

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

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Actuarial Assumptions**

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

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

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

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

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

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Long-Term Expected Rate of Return**

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

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

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

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Discount Rate**

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

**Changes in Net Pension Liability**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
Balances at June 30, 2017	\$ 5,966,923	\$ 3,098,433	\$ 2,868,490
Changes for the year:			
Service cost	72,861	-	72,861
Interest	404,209	-	404,209
Difference between expected and actual	(140,748)		(140,748)
Contributions – employer	-	285,938	(285,938)
Contributions – employee	-	57,338	(57,338)
Net investment income	-	226,659	(226,659)
Benefit payments, including refunds of employee contributions	(385,011)	(385,011)	-
Administrative expenses	-	(1,941)	1,941
Other changes	-	(204)	204
Net changes	(48,689)	182,779	(231,468)
Balances at June 30, 2018	\$ 5,918,234	\$ 3,281,212	\$ 2,637,022

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 7. Defined Benefit Pension Plan (Continued)**

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

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

	<b><u>1.00% Decrease (6.00%)</u></b>	<b><u>Current Discount Rate (7.00%)</u></b>	<b><u>1.00% Increase (8.00%)</u></b>
Political subdivision's net pension liability	\$ 3,395,350	\$ 2,637,022	\$ 2,014,650

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

For the year ended June 30, 2019, the political subdivision recognized pension expense of \$193,722. At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 142,609	\$ 117,407
Change in assumptions	-	70,813
Net difference between projected and actual earnings on pension plan investments	-	21,416
Employer contributions subsequent to the measurement date	<u>235,672</u>	<u>-</u>
Total	<u>\$ 378,281</u>	<u>\$ 209,636</u>

(Continued)



**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 7. Defined Benefit Pension Plan (Continued)**

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

The \$235,672 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Reduction to Pension Expense</b>
2020	\$ 33,325
2021	14,409
2022	(55,169)
2023	(35,549)
2024	(23,341)
Thereafter	(702)

**Pension Plan Data**

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

**Payables to the Pension Plan**

At June 30, 2019, approximately \$22,000 was payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 8. Other Postemployment Benefits Liability – Local Plan**

**Plan Description and Benefits Provided**

For those employees who retired before July 1, 2015, after 15 years of service to the Authority, the Authority may pay up to 35% of the cost of health insurance for the “employee only” or “employee and spouse” under the Authority’s health insurance plan, or approved insurance plan through the Authority at the time of retirement, if the spouse was covered on the health insurance at least six (6) months prior to, and at the time of, retirement. After thirty (30) years of service to the Authority, the Authority may pay up to 50% of the cost.

For those employees who retire on or after July 1, 2015, after 15 years of service to the Authority, the Authority may pay up to 35% of the cost of health insurance for the “employee only” under the Authority’s health insurance plan, or approved insurance plan through the Authority at the time of retirement. After thirty (30) years of service to the Authority, the Authority may pay up to 50% of the “employee only” cost.

The plan does not provide audited financial statements.

**Funding Policy**

The Authority currently funds postemployment benefits on a pay-as-you-go basis. The Authority does not intend to establish a trust to pre-fund this liability.

**Employees Covered by Benefit Terms**

As of the January 1, 2019 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u><b>Number</b></u>
Inactive employees or beneficiaries	10
Active plan members	<u>20</u>
	<u><u>30</u></u>

**Total OPEB Liability**

The Authority’s total OPEB liability of \$1,802,396 was measured as of June 30, 2019 and was determined based on an actuarial valuation performed as of January 1, 2019.

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 8. Other Postemployment Benefits Liability – Local Plan (Continued)**

**Actuarial Assumptions and other inputs**

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

Investment Return: 4.00% net of investment expense and including inflation

Healthcare Trend: 6.25% initially, grading down to 4.50% ultimate

Mortality rates were the same rates from the VRS valuation. (See Note 7)

The actuarial assumptions used in the January, 1 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016.

Changes in assumptions and other inputs reflect an increase in the discount rate due to changes in the 20-year bond index.

**Changes in the Total OPEB Liability**

Balance at June 30, 2018	\$ 1,380,220
Changes for the year:	
Service cost	18,288
Interest	59,755
Benefit changes	-
Differences between expected and actual experience	291,094
Assumption or other input changes	112,807
Benefit payments	<u>(59,768)</u>
Net changes	<u>422,176</u>
Balance at June 30, 2019	<u><u>\$ 1,802,396</u></u>

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 8. Other Postemployment Benefits Liability – Local Plan (Continued)**

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

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current discount rate:

	<b>1.00% Decrease (2.13%)</b>	<b>Current Discount Rate (3.13%)</b>	<b>1.00% Increase (4.13%)</b>
Total OPEB liability	\$ 2,056,525	\$ 1,802,396	\$ 1,595,400

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

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3.25%) or one percentage point higher (5.25%) than the current healthcare cost trend rates:

	<b>1.00% Decrease (3.25%)</b>	<b>Current Healthcare Cost Trend Rates (4.25%)</b>	<b>1.00% Increase (5.25%)</b>
Total OPEB liability	\$ 1,586,321	\$ 1,802,396	\$ 2,069,918

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 8. Other Postemployment Benefits Liability – Local Plan (Continued)**

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

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$107,583. At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 268,702	\$ -
Change in assumptions	104,130	9,173
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 372,832</u>	<u>\$ 9,173</u>

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

<b>Year Ending June 30,</b>	<b>Increase (Reduction) to OPEB Expense</b>
2020	\$ 29,540
2021	29,540
2022	29,540
2023	29,540
2024	29,540
Thereafter	215,959

(Continued)

## NRV REGIONAL WATER AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2019

#### Note 9. Other Postemployment Benefits Liability – Virginia Retirement System Plan

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

##### Plan Description

###### Group Life Insurance Program

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

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

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

##### Contributions

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

###### Group Life Insurance Program

Governed by:	<i>Code of Virginia 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.</i>
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2019 Contribution	\$6,700
June 30, 2018 Contribution	\$6,088

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 9. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)**

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

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

Group Life Insurance Program

June 30, 2019 proportionate share of liability	\$94,000
June 30, 2018 proportion	0.00616%
June 30, 2017 proportion	0.00550%
June 30, 2019 expense	\$3,000

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

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

Group Life Insurance Program

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 5,000	\$ 2,000
Change in assumptions	-	4,000
Net difference between projected and actual earnings on OPEB plan investments	-	3,000
Changes in proportion	9,000	-
Employer contributions subsequent to the measurement date	6,700	-
Total	<u>\$ 20,700</u>	<u>\$ 9,000</u>

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 9. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)**

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

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

**Group Life Insurance Program**

<b>Year Ending June 30,</b>	<b>Increase (Reduction) to OPEB Expense</b>
2020	\$ 1,000
2021	1,000
2022	1,000
2023	1,000
2024	1,000
Thereafter	-

**Actuarial Assumptions and Other Inputs**

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

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

(Continued)



**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 9. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

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

Mortality rates used for the various VRS OPEB plan is the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 7.

**Net OPEB Liability**

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

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

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

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 9. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)**

**Long-Term Expected Rate of Return**

Group Life Insurance

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

<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	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

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

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 9. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)**

**Discount Rate**

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

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

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

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
GLI Net OPEB liability	\$ 123,000	\$ 94,000	\$ 70,000

**OPEB Plan Fiduciary Net Position**

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

**Payables to the OPEB Plan**

At June 30, 2019, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

- Group Life Insurance \$589

(Continued)

## NRV REGIONAL WATER AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2019

#### Note 10. Deferred Compensation Plan

##### Plan Description

The Authority offers its employees a deferred compensation plan created in accordance with *Internal Revenue Code* Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or qualifying hardship. The Authority makes a matching contribution up to the equivalent of \$50 per month per employee.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust by a third-party for the exclusive benefit of participants and their beneficiaries. For 2019, the Authority's matching contributions totaled \$8,400.

#### Note 11. Risk Management

The Risk Management Programs of the Authority are as follows:

##### Worker's compensation

Worker's compensation insurance is provided through the Virginia Municipal Self-Insurance Association ("VML"). During fiscal year 2019, total premiums paid were \$17,712. Benefits are those afforded through the Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon payroll, job rates, and claims experience.

##### General liability and other

The Authority provides general liability and other insurance through policies with the Virginia Municipal League Pool. General liability, business, and automobile have a \$1,000,000 limit. Boiler and machinery coverage maintains an additional \$50,000,000 umbrella policy over all forms of liability insurance. The Virginia Municipal League Pool was organized to formulate, develop, and administer on behalf of the member localities, a program of insurance, lower costs for that coverage, and a comprehensive loss control program. Pool members are not subject to a supplemental assessment in the event of deficiencies. The Pool maintains a re-insurance policy, which prevents members' responsibility for the Pool's liabilities if the assets of the Pool were exhausted. The Pool limits membership to small-sized to medium-sized Virginia localities and currently has approximately 500 members.

There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

##### Unemployment benefits

The Authority does not pay state unemployment taxes for employees to draw upon should they be terminated and qualify for unemployment; instead, the state will pay the employee and charge the Authority for reimbursement.

(Continued)

## NRV REGIONAL WATER AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2019

#### Note 12. New Accounting Standards

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

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

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

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

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

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

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

(Continued)

**NRV REGIONAL WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 12. New Accounting Standards (Continued)**

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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## NRV REGIONAL WATER AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**June 30, 2019**

	Plan Year				
	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 72,861	\$ 74,071	\$ 62,085	\$ 66,261	\$ 49,647
Interest on total pension liability	404,209	403,790	380,080	377,314	374,917
Difference between expected and actual experience	(140,748)	19,755	278,627	39,178	-
Changes in assumptions	-	(109,937)	-	-	-
Benefit payments, including refunds of employee contributions	(385,011)	(378,356)	(385,812)	(500,665)	(279,985)
Net change in total pension liability	(48,689)	9,323	334,980	(17,912)	144,579
<b>Total pension liability - beginning</b>	<b>5,966,923</b>	<b>5,957,600</b>	<b>5,622,620</b>	<b>5,640,532</b>	<b>5,495,953</b>
<b>Total pension liability - ending</b>	<b>5,918,234</b>	<b>5,966,923</b>	<b>5,957,600</b>	<b>5,622,620</b>	<b>5,640,532</b>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	285,938	242,825	232,647	220,438	143,505
Contributions - employee	57,338	48,839	46,797	44,669	43,329
Net investment income	226,659	340,147	47,822	136,169	415,535
Benefit payments, including refunds of employee contributions	(385,011)	(378,356)	(385,812)	(500,665)	(279,985)
Administrative expenses	(1,941)	(2,001)	(1,824)	(2,052)	(2,295)
Other	(204)	(303)	(21)	(29)	22
Net change in plan fiduciary net position	182,779	251,151	(60,391)	(101,470)	320,111
<b>Plan fiduciary net position - beginning</b>	<b>3,098,433</b>	<b>2,847,282</b>	<b>2,907,673</b>	<b>3,009,143</b>	<b>2,689,032</b>
<b>Plan fiduciary net position - ending</b>	<b>3,281,212</b>	<b>3,098,433</b>	<b>2,847,282</b>	<b>2,907,673</b>	<b>3,009,143</b>
<b>Net pension liability - ending</b>	<b>\$ 2,637,022</b>	<b>\$ 2,868,490</b>	<b>\$ 3,110,318</b>	<b>\$ 2,714,947</b>	<b>\$ 2,631,389</b>
Plan fiduciary net position as a percentage of total pension liability	55%	52%	48%	52%	53%
Covered payroll	\$ 1,170,775	\$ 985,817	\$ 949,183	\$ 904,029	\$ 914,061
Net pension liability as a percentage of covered payroll	225%	291%	328%	300%	288%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) is the first year for this presentation, only four years of data are available. However, additional years will be included as they become available.

## NRV REGIONAL WATER AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**June 30, 2019**

<b>Entity Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
<b>Primary Government</b>					
2019	\$ 235,672	\$ 235,672	\$ -	\$ 1,330,467	17.71%
2018	287,542	287,542	-	1,170,775	24.56%
2017	242,825	242,825	-	985,817	24.63%
2016	233,309	233,309	-	949,183	24.58%
2015	222,211	222,211	-	904,029	24.58%

This schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only five years of data are available. Additional years will be included as they become available.

## NRV REGIONAL WATER AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY**  
**AND RELATED RATIOS – LOCAL PLAN**  
**June 30, 2019**

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>
	<b>Local Plan</b>	<b>Local Plan</b>
<b>Total OPEB Liability</b>		
Service cost	\$ 18,288	\$ 14,187
Interest on total OPEB liability	59,755	48,604
Difference between expected and actual experience	291,094	-
Changes in assumptions	112,807	(12,231)
Benefit payments	(59,768)	(42,483)
	<hr/>	<hr/>
Net change in total OPEB liability	422,176	8,077
<b>Total OPEB liability - beginning</b>	1,380,220	1,372,143
<b>Total OPEB liability - ending</b>	<hr/>	<hr/>
	1,802,396	1,380,220
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	59,768	42,483
Benefit payments	(59,768)	(42,483)
	<hr/>	<hr/>
Net change in plan fiduciary net position	-	-
<b>Plan fiduciary net position - beginning</b>	-	-
<b>Plan fiduciary net position - ending</b>	<hr/>	<hr/>
	-	-
<b>Net OPEB liability - ending</b>	<hr/>	<hr/>
	\$ 1,802,396	\$ 1,380,220
Plan fiduciary net position as a percentage of total OPEB liability	<hr/>	<hr/>
	0%	0%
Covered payroll	<hr/>	<hr/>
	\$ 1,478,456	\$ 1,196,905
Net OPEB liability as a percentage of covered payroll	<hr/>	<hr/>
	122%	115%

This schedule is intended to show information for 10 years. Since fiscal year 2018 is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

## NRV REGIONAL WATER AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF OPEB CONTRIBUTIONS – LOCAL PLAN**  
**June 30, 2019**

<b>Entity Fiscal Year Ended June 30</b>	<b>Actuarially Determined Employer Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
<b>Local Plan</b>					
2019	\$ 119,647	\$ 59,768	\$ 59,879	\$ 1,478,456	4.04%
2018	93,417	42,483	50,934	1,196,905	3.55%

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only two years of data are available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e., the covered payroll on which required contributions were based for the same year.

## NRV REGIONAL WATER AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY – VRS GLI**  
**June 30, 2019**

<b>Entity Fiscal Year Ended June 30</b>	<b>Employer's Proportion of the Net OPEB Liability</b>	<b>Employer's Proportionate Share of the Net OPEB Liability</b>	<b>Employer's Covered Payroll</b>	<b>Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>
<b>Virginia Retirement System - Group Life Insurance - General Employees</b>					
2019	0.0062%	\$ 94,000	\$ 1,170,775	8.03%	51.22%
2018	0.0055%	\$ 83,000	\$ 985,817	8.42%	48.86%

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which are the twelve months prior to the entity's fiscal year.

## NRV REGIONAL WATER AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS – VRS GLI**  
**June 30, 2019**

<b>Entity Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
<b>Virginia Retirement System - Group Life Insurance - General Employees</b>					
2019	\$ 6,700	\$ 6,700	\$ -	\$ 1,330,467	0.50%
2018	6,088	6,088	-	1,170,775	0.52%

This schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e., the covered payroll on which required contributions were based for the same year.

## NRV REGIONAL WATER AUTHORITY

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2019

#### Note 1. Changes of Benefit Terms

##### Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

##### Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

#### Note 2. 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:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Applicable to: Pension and GLI OPEB

##### All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Applicable to: Pension and GLI OPEB

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## OTHER INFORMATION SECTION

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This part of the NRV Regional Water Authority's financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's financial health.

### **Contents**

#### ***Debt Coverage***

#### ***Table 1***

This schedule presents information to help the reader assess the Authority's ability to meet required debt coverage as required by the lender.

**Sources:** Unless otherwise noted, the information in these schedules is derived from the financial reports for the relevant year.



TABLE 1

## NRV REGIONAL WATER AUTHORITY

SCHEDULE OF DEBT COVERAGE  
LAST SIX FISCAL YEARS

Fiscal Year	Gross Revenues <sup>1</sup>	Less Operating Expenses <sup>2</sup>	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2019	\$ 9,341,049	\$ 4,002,923	\$ 5,338,126	\$ 150,000	\$ 243,714	1356%
2018	7,583,040	3,587,537	3,995,503	140,000	250,475	1023%
2017	5,684,611	3,414,717	2,269,894	130,000	256,737	587%
2016	5,328,341	3,407,115	1,921,226	135,000	262,332	484%
2015	5,109,760	3,369,393	1,740,367	150,000	291,840	394%
2014	4,434,365	3,342,820	1,091,545	65,000	227,838	373%

<sup>1</sup> Operating revenues, interest, and connection fees as described in Note 1.

<sup>2</sup> Net of depreciation, amortization, and interest.

Note: The Authority took on debt starting in fiscal year 2014. For this reason, only six years of statistical data are being presented. The ultimate goal is to present ten years of data.

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## **COMPLIANCE SECTION**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of the Board of Directors  
NRV Regional Water Authority  
Radford, Virginia

We have audited, 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 *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 NRV Regional Water Authority (the "Authority"), 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, and have issued our report thereon dated October 24, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **However, as described in the accompanying schedule of finding and response as item 2019-001, we identified a certain deficiency in internal control that we consider to be a material weakness.**

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.**

## Authority's Response to Finding

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

## 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
October 24, 2019



**NRV REGIONAL WATER AUTHORITY**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2019**

As more fully described in the Independent Auditor's 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*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

**STATE COMPLIANCE MATTERS**

*Code of Virginia:*

Cash and Investment Laws  
Conflict of Interests Act  
Local Retirement Systems  
Procurement Laws  
Uniform Disposition of Unclaimed Property Act

**NRV REGIONAL WATER AUTHORITY**  
**SCHEDULE OF FINDING AND RESPONSE**  
**Year Ended June 30, 2019**

**A. FINDING – FINANCIAL STATEMENT AUDIT**

**2019-001: Segregation of Duties (Material Weakness)**

*Condition:*

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. A proper segregation of duties has not been established in functions related to cash receipts, accounts receivable, cash disbursements, and accounts payable.

*Recommendation:*

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

*Management's Response:*

Management understands this concern; however, the current staff size limits the separation of duties opportunities in regards to these functions.

**B. FINDING – COMMONWEALTH OF VIRGINIA**

**None.**

**NRV REGIONAL WATER AUTHORITY**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2019**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2015-001: Segregation of Duties (Material Weakness)**

*Condition:*

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. A proper segregation of duties has not been established in functions related to cash receipts, accounts receivable, cash disbursements, and accounts payable.

*Current Status:*

Condition still present.

**2015-002: Auditor Adjustments (Material Weakness)**

*Condition:*

Due to the size of the organization and number of employees, the Authority does not currently have on staff an employee who is trained to prepare accrual basis financial statements in accordance with generally accepted accounting principles (GAAP). The result is that material adjustments to financial statement items are routinely made as part of the audit. The Executive Director and Executive Assistant do possess adequate skills, knowledge, and experience on the day to day basis of accounting, recording, and processing of transactions. The Authority has outsourced some of its accounting functions to a local CPA firm who performs monthly and year-end bookkeeping services.

*Current Status:*

Condition cleared during the current year.