

**PUBLIC SERVICE AUTHORITY
OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

**PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
TABLE OF CONTENTS**

FINANCIAL SECTION

Page

Independent Auditors' Report..... 1-3

Basic Financial Statements:

Exhibit 1 - Statement of Net Position 4
Exhibit 2 - Statement of Revenues, Expenses, and Change in Net Position 5
Exhibit 3 - Statement of Cash Flows 6

Notes to Financial Statements 7-34

Required Supplementary Information:

Exhibit 4 - Schedule of the Authority's Proportionate Share of the Net Pension Liability 35
Exhibit 5 - Schedule of Employer Contributions 36
Exhibit 6 - Notes to Required Supplementary Information 37

Other Supplementary Information:

Exhibit 7 - Combining Statement of Net Position 38
Exhibit 8 - Combining Statement of Revenues, Expenses, and Change in Net Position..... 39
Exhibit 9 - Combining Statement of Cash Flows 40

COMPLIANCE SECTION

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* 41-42

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board Members of
Carroll County Public Service Authority
Hillsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2018, 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 Carroll County Public Service Authority, as of June 30, 2018, and the 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules related to pension funding on pages 35-37 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 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. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Carroll County Public Service Authority's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate 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 combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2018, on our consideration of Carroll 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 Carroll 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 Carroll County Public Service Authority's internal control over financial reporting and compliance.

Polina, Famer, Fox Associates

Blacksburg, Virginia
November 18, 2018

Basic Financial Statements

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

Statement of Net Position

As of June 30, 2018

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 420,871
Receivables (net of allowance for uncollectibles):	
Water and sewer billings	439,663
Note receivable	355,373
Prepaid items	37,399
Restricted Current Assets:	
Cash and cash equivalents - debt service	\$ 695,910
Cash held for others - customer deposits	111,712
Total restricted current assets	\$ 807,622
Total current assets	\$ 2,060,928
Noncurrent Assets:	
Capital Assets:	
Land	\$ 264,837
Construction in progress	90,267
Machinery and equipment	1,126,698
Plant and lines	55,519,560
Accumulated depreciation	(15,780,486)
Total capital assets	\$ 41,220,876
Total noncurrent assets	\$ 41,220,876
Total assets	\$ 43,281,804
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	\$ 94,506
LIABILITIES	
Current liabilities:	
Accounts payable - operations	\$ 127,079
Accrued interest payable	42,733
Amounts held for others	111,712
Due to County of Carroll, Virginia	68,662
Compensated absences - current portion	64,458
Bonds and notes payable - current portion	680,668
Total current liabilities	\$ 1,095,312
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 21,485
Net pension liability	487,062
Bonds and notes payable - net of current portion	24,115,058
Total noncurrent liabilities	\$ 24,623,605
Total liabilities	\$ 25,718,917
DEFERRED INFLOWS OF RESOURCES	
Pension related items	\$ 71,543
NET POSITION	
Net investment in capital assets	\$ 16,780,523
Restricted	695,910
Unrestricted	109,417
Total net position	\$ 17,585,850

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Statement of Revenues, Expenses, and Change in Net Position
 For the Year Ended June 30, 2018

Operating Revenues:	
Water and sewer charges	\$ 2,870,262
Penalties and interest	153,826
State fees	11,138
Fire service	22,285
Miscellaneous	<u>113,693</u>
Total operating revenues	\$ <u>3,171,204</u>
Operating Expenses:	
Salaries and fringes	\$ 878,734
Professional services	14,424
Repairs and maintenance	139,568
Operating materials and supplies	76,261
Vehicle supplies and fuel	63,632
Utilities	210,073
Office and insurance expenses	200,792
Miscellaneous	12,833
Water and sewage treatment purchases	815,405
Depreciation expense	<u>1,464,972</u>
Total operating expenses	\$ <u>3,876,694</u>
Operating income (loss)	\$ <u>(705,490)</u>
Nonoperating Revenues (Expenses):	
Connection fees	\$ 61,800
Interest income	21,694
Interest expense	(699,601)
Contribution to New River Regional Water Authority	(280,263)
Contributions from Primary Government	<u>996,787</u>
Total nonoperating revenues (expenses)	\$ <u>100,417</u>
Income (loss) before capital contributions	\$ <u>(605,073)</u>
Capital contributions:	
Construction grants	\$ <u>194,873</u>
Change in net position	\$ (410,200)
Net position, beginning of year	<u>17,996,050</u>
Net position, end of year	\$ <u><u>17,585,850</u></u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Cash Flows
For the Year Ended June 30, 2018

	<u>Total</u>
Cash flows from operating activities:	
Receipts from customers	\$ 3,045,168
Payments to employees for services	(873,096)
Payments to suppliers for goods and services	<u>(1,501,980)</u>
Net cash provided by (used for) operating activities	\$ <u>670,092</u>
Cash flows from noncapital financing activities:	
Contribution from Carroll County	\$ <u>996,787</u>
Net cash provided by (used for) noncapital financing activities	\$ <u>996,787</u>
Cash flows from capital and related financing activities:	
Connection charges	\$ 61,800
Purchase of capital assets	(192,230)
Contribution to NRRWA	(280,263)
Contributions in aid of construction	230,867
Payments from Wythe County on note receivable	7,348
Principal payments on indebtedness	(653,416)
Interest payments on indebtedness	<u>(730,008)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(1,555,902)</u>
Cash flows from investing activities:	
Interest income	\$ <u>21,694</u>
Increase (decrease) in cash and cash equivalents	\$ 132,671
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$761,868)	<u>1,095,822</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$807,622)	\$ <u><u>1,228,493</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (705,490)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,464,972
Changes in operating assets and liabilities and deferred outflows/inflows:	
(Increase) decrease in accounts receivable	(129,060)
(Increase) decrease in prepaid items	1,491
(Increase) decrease in deferred outflows of resources	80,817
Increase (decrease) in deferred inflows of resources	70,663
Increase (decrease) in operating payables	29,517
Increase (decrease) in amount due to Carroll County for payroll	2,720
Increase (decrease) in customer deposits	3,024
Increase (decrease) in compensated absences	6,150
Increase (decrease) in net pension liability	<u>(154,712)</u>
Net cash provided by (used for) operating activities	\$ <u><u>670,092</u></u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

The following is a summary of the more significant accounting policies:

A. The Financial Reporting Entity:

The Authority is a discretely presented component unit of County of Carroll, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2018.

B. Basis of Accounting:

Proprietary Funds - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds 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 non-operating revenues and expenses.

C. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no capitalized interest during fiscal year 2018.

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

<u>Assets</u>	<u>Years</u>
Water & Sewer System	5-50
Equipment	3-10
Buildings	30-50

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Allowance for Uncollectible Accounts:

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2018, the allowance amounted to approximately \$230,006.

E. Cash, Cash Equivalents and Investments:

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less. Certificates of deposits are reported in the accompanying financial statements as cash and cash equivalents.

F. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Restricted Net Position:

Included in restricted cash and cash equivalents are amounts held in debt service reserve accounts in the amount of \$695,910. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

H. Compensated Absences:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expense and a liability on the statement of net position. In accordance with the provisions of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Authority accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred.

I. Prepaid Items:

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

J. 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.

K. 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) until then. The Authority 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 contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date. For more detailed information on these items, reference the pension note.

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 are reported as deferred inflows of resources. For more detailed information on these items, reference the pension note.

L. 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.

M. Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund 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.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

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.

Investments: Statutes authorize local governments and other public bodies 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). Carroll County Public Service Authority does not have any investments at June 30, 2018.

NOTE 3 - DUE TO PRIMARY GOVERNMENT:

All full-time employees of the Public Service Authority are paid through County of Carroll, Virginia. Part-time employees are paid by the Authority along with any overtime pay that the Public Service Authority Board approves. As of June 30, 2018, the Authority owes County of Carroll, Virginia \$68,662 for prior payroll services.

The remainder of this page is left blank intentionally.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of Carroll County Public Service Authority are automatically covered by VRS Retirement Plan upon employment, through the County of Carroll, Virginia. 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 the County of Carroll, Virginia 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.

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. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none"> In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is 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.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> Political subdivision employees* Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contribution Component:</u> (Cont.) Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component 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. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required employer contribution rate for the year ended June 30, 2018 was 11.20% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$65,117 and \$71,110 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

At June 30, 2018, the Authority reported a liability of \$487,062 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2017 and 2016 as a basis for allocation. At June 30, 2017 and 2016, the Authority's proportion was 8.26% and 8.26%, respectively.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

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, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, 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 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.

The remainder of this page is left blank intentionally.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (CONTINUED)

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.

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.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (CONTINUED)

The actuarial assumptions used in the June 30, 2016 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)
Retirement Rates

Updated to a more current mortality table - RP-2014 projected to 2020

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%

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - 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	15.00%	9.53%	1.43%
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%.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - 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. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Carroll County Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed 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.

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

The following presents 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:

Authority's proportionate share of the net pension liability	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Water Fund	\$ 651,108	\$ 365,057	\$ 127,882
Sewer Fund	217,607	122,005	42,740
Total	<u>\$ 868,715</u>	<u>\$ 487,062</u>	<u>\$ 170,622</u>

The remainder of this page is left blank intentionally.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2018, the Authority recognized pension expense of \$61,326. 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, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Water Fund		Sewer Fund		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,036	\$ 18,921	\$ 7,353	\$ 6,324	\$ 29,389	\$ 25,245
Net difference between projected and actual earnings on pension plan investments	-	26,472	-	8,839	-	35,311
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	323	-	108	-	431
Change in assumptions	-	7,912	-	2,644	-	10,556
Employer contributions subsequent to the measurement date	55,240	-	9,877	-	65,117	-
Total	\$ 77,276	\$ 53,628	\$ 17,230	\$ 17,915	\$ 94,506	\$ 71,543

\$65,117 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 ended June 30, 2019. 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:

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 4 - PENSION PLAN: (CONTINUED)

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

<u>Year ended June 30</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
2019	\$ (12,891)	\$ (4,301)	\$ (17,192)
2020	5,604	1,862	7,466
2021	(7,089)	(2,369)	(9,458)
2022	(17,216)	(5,754)	(22,970)
Total	<u>\$ (31,592)</u>	<u>\$ (10,562)</u>	<u>\$ (42,154)</u>

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION:

A summary of changes in capital assets for the year follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 264,837	\$ -	\$ -	\$ 264,837
Construction in progress	44,357	45,910	-	90,267
Total capital assets not being depreciated	<u>\$ 309,194</u>	<u>\$ 45,910</u>	<u>\$ -</u>	<u>\$ 355,104</u>
Capital asset, being depreciated				
Machinery and equipment	\$ 1,126,698	\$ -	\$ -	\$ 1,126,698
Plant and lines	55,373,240	146,320	-	55,519,560
Total capital assets being depreciated	<u>\$ 56,499,938</u>	<u>\$ 146,320</u>	<u>\$ -</u>	<u>\$ 56,646,258</u>
Accumulated depreciation:				
Machinery and equipment	\$ (593,724)	\$ (88,861)	\$ -	\$ (682,585)
Plant and lines	(13,721,790)	(1,376,111)	-	(15,097,901)
Total accumulated depreciation	<u>\$ (14,315,514)</u>	<u>\$ (1,464,972)</u>	<u>\$ -</u>	<u>\$ (15,780,486)</u>
Total capital assets being depreciated, net	<u>\$ 42,184,424</u>	<u>\$ (1,318,652)</u>	<u>\$ -</u>	<u>\$ 40,865,772</u>
Capital assets, net	<u>\$ 42,493,618</u>	<u>\$ (1,272,742)</u>	<u>\$ -</u>	<u>\$ 41,220,876</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 6 - LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
Revenue Bonds	\$ 21,284,108	\$ -	\$ (451,858)	\$ 20,832,250
Virginia Resource				
Authority Loans	4,037,728	-	(184,513)	3,853,215
Promissory Notes	127,306	-	(17,045)	110,261
Net Pension Liability	641,774	262,169	(416,881)	487,062
Compensated Absences	79,793	65,995	(59,845)	85,943
Total	\$ 26,170,709	\$ 328,164	\$ (1,130,142)	\$ 25,368,731

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Water/Sewer Revenue Bonds		VRA Loans		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 475,032	\$ 607,608	\$ 187,877	\$ 114,094	\$ 17,759	\$ 4,324
2020	490,014	592,627	190,727	111,489	18,522	3,560
2021	505,526	577,114	193,648	108,819	19,319	2,764
2022	521,589	561,051	196,642	106,084	20,149	1,933
2023	538,225	544,415	199,712	103,281	20,525	1,066
2024-2028	2,962,335	2,450,865	1,011,721	437,809	13,987	249
2029-2033	3,478,236	1,934,964	1,020,089	283,386	-	-
2034-2038	3,355,441	1,378,532	852,799	54,479	-	-
2039-2043	3,068,310	926,366	-	-	-	-
2044-2048	3,465,560	475,175	-	-	-	-
2049-2053	1,756,474	127,451	-	-	-	-
2054	215,508	4,727	-	-	-	-
Totals	\$ 20,832,250	\$ 10,180,895	\$ 3,853,215	\$ 1,319,441	\$ 110,261	\$ 13,896

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 6 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Payment Installments*	Balance Business-Type Activities	Amount Due Within One Year
<u>Rural Development Bonds</u>							
Sewer Revenue Bond	4.50%	7/10/1998	8/10/2040	\$ 977,000	\$53,820/m	\$ 695,742	\$ 22,983
Sewer Revenue Bond	3.25%	12/2/1999	6/2/2039	389,300	17,904/m	272,442	9,186
Sewer Revenue Bond	4.50%	12/17/2008	9/17/2048	3,261,000	179,616/m	2,968,177	46,999
Sewer Revenue Bond	2.38%	3/25/2010	3/25/2052	1,436,974	76,152/m	1,615,249	38,204
Sewer Revenue Bond	2.25%	12/13/2011	7/13/2039	2,000,000	78,480/m	1,841,512	37,430
Water Revenue Bond	4.50%	8/25/1994	4/25/2034	500,300	27,564/m	312,735	13,773
Water Revenue Bond	4.50%	4/28/1994	12/5/2037	1,345,400	68,856/m	828,846	37,584
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	650,000	38,676/m	442,486	19,157
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	168,700	6,432/m	73,466	3,191
Water Revenue Bond	4.50%	8/5/1998	12/31/2033	1,250,000	74,112/m	894,461	29,204
Water Revenue Bond	2.38%	3/31/2010	3/31/2052	5,000,000	200,400/m	4,450,564	95,737
Water Revenue Bond	2.38%	8/3/2010	5/3/2050	183,000	7,344/m	164,259	3,480
Water Revenue Bond	2.25%	11/16/2011	9/16/2051	1,000,000	39,240/m	919,170	18,749
Water Revenue Bond	2.50%	5/28/2014	5/28/2054	1,256,000	4,271/m	1,213,581	21,154
Water Revenue Bond	2.00%	8/29/2013	8/28/2053	2,227,000	6,993/m	2,112,262	42,054
Water Revenue Bond	2.25%	9/1/2015	9/1/2047	2,054,000	6,573/m	2,027,298	36,147
Total Rural Development Bonds						\$ 20,832,250	\$ 475,032
<u>Virginia Resource Authority (VRA) Bonds</u>							
Water Revenue Bond	0.00%	1/1/2002	1/1/2032	\$ 1,173,928	\$19,565/sa	\$ 527,720	\$ 39,090
Water Revenue Bond	0.00%	6/30/2004	6/1/2035	1,129,000	17,509/sa	577,807	35,019
Water Revenue Bond	3.00%	6/30/2004	12/1/2024	153,200	4,869/sa	57,118	8,084
Water Revenue Bond	2.45%	2/28/2017	3/1/2038	2,793,127	85,475/sa	2,690,570	105,684
Total VRA Bonds						\$ 3,853,215	\$ 187,877
<u>Notes Payable</u>							
Promissory Note - Sewer	4.21%	4/28/2004	2/16/2024	\$ 250,000	\$1,543/m	\$ 94,711	\$ 14,817
Promissory Note - Water	4.25%	4/1/2013	4/15/2023	29,000	297/m	15,550	2,942
Total Notes Payable						\$ 110,261	\$ 17,759
<u>Other Long-Term Obligations</u>							
Net pension liability						\$ 487,062	\$ -
Compensated absences						85,943	64,458
Total Other Long-Term Obligations						\$ 573,005	\$ 64,458
Total Long-Term Obligations						\$ 25,368,731	\$ 745,126

* m = monthly, sa = semiannually

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

Purchase Agreement:

The Authority has an agreement with the Town of Hillsville which provides for the Authority to obtain water and sewage treatment at current cost plus twenty percent (20%).

NOTE 8 - RISK MANAGEMENT:

The Authority participates with entities in a public entity risk pool for its coverage of general liability, auto, property, equipment and machinery, and crime insurance with the Virginia Association of Counties. Each member of the risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays the Virginia Association of Counties contributions and assessments into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - NOTE RECEIVABLE:

On February 26, 2009, County of Wythe, Virginia and the Authority agreed to a cost sharing agreement related to the Pump Station and Water Transmission Main (Long Range) project. Carroll County Public Service Authority financed the project and provided oversight for the construction. The agreement states that County of Wythe, Virginia will pay twenty two percent of the debt service and annual operation and maintenance costs of the Pump Station and Water Transmission Main. Each entity has agreed to own the corresponding percentage of the infrastructure. Thus, County of Wythe, Virginia received an asset in the amount of \$580,453. Of this amount, \$398,663 represents a receivable from Wythe County and a grant in the amount of \$181,790. As of June 30, 2018, Wythe County owed the Authority \$355,373.

NOTE 10 - OPERATING LEASE:

Beginning in 2007, the Authority entered into an operating lease with City of Galax for sewer treatment capacity. The Authority is required to make semi-annual payments in the amount of \$12,395 until 2031.

NOTE 11 - LITIGATION:

As of June 30, 2018, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should a court decision on pending matters not be favorable.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 12 - NON-EXCHANGE FINANCIAL GUARANTEE:

Carroll County has provided a moral obligation to back all debt of the Authority and, accordingly, makes annual contributions to the Authority for debt service. Carroll 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 2018, the County contributed \$996,787 to help the Authority pay its debt service.

NOTE 13 - UPCOMING PRONOUNCEMENTS:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2018

NOTE 13 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

Required Supplementary Information

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 For the Years Ended June 30, 2015 through June 30, 2018

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

Date	Proportion of the Net Pension Liability (NPL)	Proportionate Share of the NPL	Covered Payroll	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
(1)	(2)	(3)	(4)	(5)	(6)
2017	8.2637%	\$ 487,062	\$ 654,293	74.44%	83.27%
2016	8.2637%	641,774	630,530	101.78%	77.51%
2015	8.2813%	505,758	621,183	81.42%	81.30%
2014	8.2813%	417,602	598,577	69.77%	83.61%

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.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Schedule of Employer Contributions
 For the Years Ended June 30, 2015 through June 30, 2018

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

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess) (1) - (2)	Employer's Covered Payroll	Contributions as a % of Covered Payroll (2)/(4)
(1)	(1)	(2)	(3)	(4)	(5)
2018	\$ 65,117	\$ 65,117	\$ -	\$ 612,474	10.63%
2017	71,110	71,110	-	654,293	10.87%
2016	76,159	76,159	-	630,530	12.08%
2015	82,633	82,633	-	621,183	13.30%

Schedule is intended to show information for 10 years. Prior to 2015, the PSA's information was consolidated in the County's totals and presented in the County report. Therefore, sufficient information to allocate the prior year balances is not available. Additional years will be included as they become available.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Notes to Required Supplementary Information
 For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

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 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%

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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

Mortality Rates (pre-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%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Other Supplementary Information

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Net Position
As of June 30, 2018

ASSETS	Water Fund	Sewer Fund	Total
Current Assets:			
Cash and cash equivalents	\$ 455,985	\$ -	\$ 455,985
Receivables (net of allowance for uncollectibles):			
Water and sewer billings	287,686	151,977	439,663
Note receivable	355,373	-	355,373
Prepaid items	36,554	845	37,399
Restricted Current Assets:			
Cash and cash equivalents - debt service	\$ 405,066	\$ 290,844	\$ 695,910
Cash held for others - customer deposits	73,730	37,982	111,712
Total restricted current assets	\$ 478,796	\$ 328,826	\$ 807,622
Total current assets	\$ 1,614,394	\$ 481,648	\$ 2,096,042
Noncurrent Assets:			
Capital Assets:			
Land	\$ 254,837	\$ 10,000	\$ 264,837
Construction in progress	90,267	-	90,267
Machinery and equipment	736,922	389,776	1,126,698
Plant and lines	36,950,889	18,568,671	55,519,560
Accumulated depreciation	(10,537,961)	(5,242,525)	(15,780,486)
Total capital assets	\$ 27,494,954	\$ 13,725,922	\$ 41,220,876
Total assets	\$ 29,109,348	\$ 14,207,570	\$ 43,316,918
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 77,276	\$ 17,230	\$ 94,506
LIABILITIES			
Current liabilities:			
Accounts payable - operations	\$ 46,287	\$ 80,792	\$ 127,079
Reconciled overdraft	-	35,114	35,114
Accrued interest payable	32,870	9,863	42,733
Amounts held for others	73,730	37,982	111,712
Due to County of Carroll, Virginia	58,390	10,272	68,662
Compensated absences - current portion	52,421	12,037	64,458
Bonds and notes payable - current portion	511,049	169,619	680,668
Total current liabilities	\$ 774,747	\$ 355,679	\$ 1,130,426
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 17,473	\$ 4,012	\$ 21,485
Net pension liability	365,057	122,005	487,062
Bonds and notes payable - net of current portion	16,129,375	7,985,683	24,115,058
Total noncurrent liabilities	\$ 16,511,905	\$ 8,111,700	\$ 24,623,605
Total liabilities	\$ 17,286,652	\$ 8,467,379	\$ 25,754,031
DEFERRED INFLOWS OF RESOURCES			
Pensions related items	\$ 53,628	\$ 17,915	\$ 71,543
NET POSITION			
Net investment in capital assets	\$ 11,209,903	\$ 5,570,620	\$ 16,780,523
Restricted	405,066	290,844	695,910
Unrestricted	231,375	(121,958)	109,417
Total net position	\$ 11,846,344	\$ 5,739,506	\$ 17,585,850

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2018

	Water Fund	Sewer Fund	Total
Operating Revenues:			
Water and sewer charges	\$ 1,969,877	\$ 900,385	\$ 2,870,262
Penalties and interest	153,826	-	153,826
State fees	11,138	-	11,138
Fire service	22,285	-	22,285
Miscellaneous	100,700	12,993	113,693
Total operating revenues	\$ 2,257,826	\$ 913,378	\$ 3,171,204
Operating Expenses:			
Salaries and fringes	\$ 753,412	\$ 125,322	\$ 878,734
Professional services	11,424	3,000	14,424
Repairs and maintenance	129,285	10,283	139,568
Operating materials and supplies	58,023	18,238	76,261
Vehicle supplies and fuel	32,128	31,504	63,632
Utilities	161,902	48,171	210,073
Office and insurance expenses	154,106	46,686	200,792
Miscellaneous	2,960	9,873	12,833
Water and sewage treatment purchases	283,119	532,286	815,405
Depreciation expense	970,536	494,436	1,464,972
Total operating expenses	\$ 2,556,895	\$ 1,319,799	\$ 3,876,694
Operating income (loss)	\$ (299,069)	\$ (406,421)	\$ (705,490)
Nonoperating Revenues (Expenses):			
Connection fees	\$ 54,300	\$ 7,500	\$ 61,800
Interest income	12,146	9,548	21,694
Interest expense	(421,651)	(277,950)	(699,601)
Contribution to New River Regional Water Authority	(280,263)	-	(280,263)
Contributions from Carroll County, Virginia	792,055	204,732	996,787
Total nonoperating revenues (expenses)	\$ 156,587	\$ (56,170)	\$ 100,417
Income (loss) before capital contributions and transfers	\$ (142,482)	\$ (462,591)	\$ (605,073)
Capital contributions:			
Construction grants	\$ 194,873	-	\$ 194,873
Transfers in/(out)	\$ (26,532)	\$ 26,532	-
Change in net position	\$ 25,859	\$ (436,059)	\$ (410,200)
Net position, beginning of year	11,820,485	6,175,565	17,996,050
Net position, end of year	\$ 11,846,344	\$ 5,739,506	\$ 17,585,850

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Cash Flows
For the Year Ended June 30, 2018

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 2,186,510	\$ 858,658	\$ 3,045,168
Payments to employees for services	(753,902)	(119,194)	(873,096)
Payments to suppliers for goods and services	(822,444)	(679,536)	(1,501,980)
Net cash provided by (used for) operating activities	<u>\$ 610,164</u>	<u>\$ 59,928</u>	<u>\$ 670,092</u>
Cash flows from noncapital financing activities:			
Interfund borrowings	\$ (26,532)	\$ 26,532	\$ -
Contribution from Carroll County	792,055	204,732	996,787
Net cash provided by (used for) noncapital financing activities	<u>\$ 765,523</u>	<u>\$ 231,264</u>	<u>\$ 996,787</u>
Cash flows from capital and related financing activities:			
Connection charges	\$ 54,300	\$ 7,500	\$ 61,800
Purchase of capital assets	(192,230)	-	(192,230)
Contribution to NRRWA	(280,263)	-	(280,263)
Contributions in aid of construction	230,867	-	230,867
Payments from Wythe County on note receivable	7,348	-	7,348
Principal payments on indebtedness	(478,158)	(175,258)	(653,416)
Interest expense	(452,539)	(277,469)	(730,008)
Net cash provided by (used for) capital and related financing activities	<u>\$ (1,110,675)</u>	<u>\$ (445,227)</u>	<u>\$ (1,555,902)</u>
Cash flows from investing activities:			
Interest income	\$ 12,146	\$ 9,548	\$ 21,694
Increase (decrease) in cash and cash equivalents	<u>\$ 277,158</u>	<u>\$ (144,487)</u>	<u>\$ 132,671</u>
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$761,868)	<u>657,623</u>	<u>438,199</u>	<u>1,095,822</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$807,622)	<u><u>\$ 934,781</u></u>	<u><u>\$ 293,712</u></u>	<u><u>\$ 1,228,493</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (299,069)	\$ (406,421)	\$ (705,490)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	970,536	494,436	1,464,972
Changes in operating assets and liabilities and deferred outflows/inflows:			
(Increase) decrease in accounts receivable	(73,312)	(55,748)	(129,060)
(Increase) decrease in prepaid items	(3,020)	4,511	1,491
(Increase) decrease in deferred outflows of resources	54,183	26,634	80,817
Increase (decrease) in deferred inflows of resources	53,001	17,662	70,663
Increase (decrease) in operating payables	13,523	15,994	29,517
Increase (decrease) in amount due to Carroll County for payroll	2,542	178	2,720
Increase (decrease) in customer deposits	1,996	1,028	3,024
Increase (decrease) in compensated absences	5,546	604	6,150
Increase (decrease) in net pension liability	(115,762)	(38,950)	(154,712)
Net cash provided by (used for) operating activities	<u><u>\$ 610,164</u></u>	<u><u>\$ 59,928</u></u>	<u><u>\$ 670,092</u></u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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*

To the Board Members of
Carroll County Public Service Authority
Hillsville, 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 Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Carroll County Public Service Authority's basic financial statements and have issued our report thereon dated November 18, 2018.

Internal Control over Financial Reporting

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

Polinson, Faneer, Cox Associates

Blacksburg, Virginia
November 18, 2018