

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

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

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**PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)  
FOR THE YEAR ENDED JUNE 30, 2016**

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## FINANCIAL SECTION

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# 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, 2016, 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 respective financial position of the business-type activities of Carroll County Public Service Authority, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As described in Note 14 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement No. 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the schedules related to pension 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 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

*Other Information (continued)*

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is 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 December 10, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carroll County Public Service Authority's internal control over financial reporting and compliance.

*Robinson, Turner, Co. Associates*

Blacksburg, Virginia  
December 10, 2016

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## **Basic Financial Statements**



PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)  
Statement of Net Position  
As of June 30, 2016

<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 287,391
Receivables (net of allowance for uncollectibles):	
Water and sewer billings	265,910
Note receivable	369,898
Grants receivable	29,608
Prepaid items	41,369
Restricted Current Assets:	
Cash and cash equivalents - debt service	\$ 653,180
Cash held for others - County gas revenue	668,678
Cash held for others - customer deposits	102,938
Total restricted current assets	\$ 1,424,796
Total current assets	\$ 2,418,972
Noncurrent Assets:	
Capital Assets:	
Land	\$ 264,837
Construction in progress	2,107,118
Machinery and equipment	1,126,698
Plant and lines	52,360,991
Accumulated depreciation	(12,889,139)
Total capital assets	\$ 42,970,505
Total noncurrent assets	42,970,505
Total assets	\$ 45,389,477
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Items related to measurement of net pension liability	\$ 38,011
Pension contributions subsequent to measurement date	76,159
Total deferred outflows of resources	\$ 114,170
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable - operations	\$ 140,116
Accounts payable - construction	157,753
Accrued interest payable	44,594
Amounts held for others	102,938
Due to County of Carroll, Virginia	744,870
Compensated absences - current portion	61,968
Bonds and notes payable - current portion	553,396
Total current liabilities	\$ 1,805,635
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 20,656
Net pension liability	505,758
Bonds and notes payable - net of current portion	25,076,327
Total noncurrent liabilities	\$ 25,602,741
Total liabilities	\$ 27,408,376
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Items related to measurement of net pension liability	\$ 56,926
<b>NET POSITION</b>	
Net investment in capital assets	\$ 17,710,680
Restricted	653,180
Unrestricted	(325,515)
Total net position	\$ 18,038,345

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, 2016

Operating Revenues:		
Water and sewer charges	\$	2,476,274
Penalties and interest		89,110
State fees		10,486
Fire service		22,670
Miscellaneous		33,386
		<u>          </u>
Total operating revenues	\$	<u>2,631,926</u>
Operating Expenses:		
Salaries and fringes	\$	914,115
Professional services		33,082
Repairs and maintenance		100,547
Operating materials and supplies		66,437
Vehicle supplies and fuel		47,093
Utilities		189,765
Office and insurance expenses		211,397
Miscellaneous		8,494
Water and sewage treatment purchases		663,328
Depreciation expense		1,416,112
		<u>          </u>
Total operating expenses	\$	<u>3,650,370</u>
Operating income (loss)	\$	<u>(1,018,444)</u>
Nonoperating Revenues (Expenses):		
Connection fees	\$	49,763
Interest income		21,251
Interest expense		(733,256)
Contribution to New River Regional Water Authority		(283,083)
Contributions from Primary Government		1,123,938
		<u>          </u>
Total nonoperating revenues (expenses)	\$	<u>178,613</u>
Income (loss) before capital contributions	\$	<u>(839,831)</u>
Construction grants:		
Construction grants	\$	<u>541,558</u>
Change in net position	\$	(298,273)
Net position, beginning of year		<u>18,336,618</u>
Net position, end of year	\$	<u><u>18,038,345</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, 2016

	<u>Total</u>
Cash flows from operating activities:	
Receipts from customers	\$ 2,639,367
Payments to employees for services	(799,142)
Payments to suppliers for goods and services	<u>(1,329,195)</u>
Net cash provided by (used for) operating activities	\$ <u>511,030</u>
Cash flows from noncapital financing activities:	
Contribution from Carroll County	\$ <u>1,123,938</u>
Cash flows from capital and related financing activities:	
Connection charges	\$ 49,763
Purchase of capital assets	(2,465,141)
Contribution to NRRWA	(283,083)
Contributions in aid of construction	596,503
Payments from Wythe County on note receivable	7,010
Proceeds from indebtedness	1,884,349
Principal payments on indebtedness	(576,447)
Interest payments on indebtedness	<u>(769,951)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(1,556,997)</u>
Cash flows from investing activities:	
Interest income	\$ <u>21,251</u>
Increase (decrease) in cash and cash equivalents	\$ 99,222
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$1,559,114)	\$ <u>1,612,965</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$1,424,796)	\$ <u><u>1,712,187</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (1,018,444)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,416,112
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	5,165
(Increase) decrease in prepaid items	(1,800)
(Increase) decrease in pension contributions subsequent to the measurement date	(31,537)
Increase (decrease) in operating payables	(7,252)
Increase (decrease) in amount due to Carroll County for payroll	152,202
Increase (decrease) in customer deposits	2,276
Increase (decrease) in compensated absences	(21,019)
Increase (decrease) in net pension liability	88,156
Increase (decrease) in items related to measurement of net pension liability	<u>(72,829)</u>
Net cash provided by (used for) operating activities	\$ <u><u>511,030</u></u>
Noncash investing, capital, or financing transactions:	
Interest paid during the year on indebtedness and included in capital assets	\$ 19,128
Construction payables	157,753
Construction payables prior fiscal year	(82,553)

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

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

NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2016

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**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, 2016.

**B. Basis of Accounting:**

*Proprietary Funds* - The accrual basis of accounting is used for the Authority. Under the accrual basis, 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. Interest capitalized during the fiscal year totaled \$19,128.

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, 2016

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**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, 2016, the allowance amounted to approximately \$235,117.

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 \$653,180. 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**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 only has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability. These include difference between expected and actual experience, change in assumptions, the net differences between projected and actual earnings on pension plan investments and contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. 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. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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

**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.

**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, 2016.

**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, 2016, the Authority owes County of Carroll, Virginia \$76,192 for prior payroll services.

The Authority bills and collects payments for natural gas on behalf of County of Carroll, Virginia. As of June 30, 2016, the Authority held \$668,678 in collections due to the County.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016**

**NOTE 4 -PENSION PLAN:**

***Plan Description***

All full-time, salaried permanent employees of the 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:

<b>RETIREMENT PLAN PROVISIONS</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>About Plan 1</b> 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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b> 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. Employees are eligible for 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><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

**Plan Description (CONTINUED)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> 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><b>Eligible Members</b> 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><b>Hybrid Opt-In Election</b> 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><b>Eligible Members</b> 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"> <li>Political subdivision employees*</li> <li>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.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

**Plan Description (CONTINUED)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Hybrid Opt-In Election (Cont.)</b> 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><b>Hybrid Opt-In Election (Cont.)</b> 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><b>*Non-Eligible Members (Cont.)</b> 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><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. 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><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> 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>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

**Plan Description (CONTINUED)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> 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><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></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><b>Defined Contributions Component:</b></u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN:** (CONTINUED)

***Plan Description (CONTINUED)***

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> 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><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> 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><b><u>Defined Contributions Component:</u></b> 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  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN:** (CONTINUED)

*Plan Description (CONTINUED)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<p><b>Vesting (Cont.)</b>  <b><u>Defined Contributions</u></b>  <b><u>Component: (Cont.)</u></b>  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"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>  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><b>Calculating the Benefit</b>  See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <b><u>Defined Benefit Component:</u></b>  See definition under Plan 1</p>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

**Plan Description (CONTINUED)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Calculating the Benefit (Cont.)</b> 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.		<b>Calculating the Benefit (Cont.)</b> <u><b>Defined Contribution Component:</b></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.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b> <b>VRS:</b> 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%.  <b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.  <b>Political subdivision hazardous duty employees:</b> 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.	<b>Service Retirement Multiplier</b> <b>VRS:</b> 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.  <b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.  <b>Political subdivision hazardous duty employees:</b> Same as Plan 1.	<b>Service Retirement Multiplier</b> <u><b>Defined Benefit Component:</b></u> <b>VRS:</b> 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.  <b>Sheriffs and regional jail superintendents:</b> Not applicable.  <b>Political subdivision hazardous duty employees:</b> Not applicable.  <u><b>Defined Contribution Component:</b></u> Not applicable.



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

**Plan Description (CONTINUED)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Normal Retirement Age</b> VRS: Age 65.</p> <p><b>Political subdivisions hazardous duty employees: Age 60.</b></p>	<p><b>Normal Retirement Age</b> VRS: Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees: Same as Plan 1.</b></p>	<p><b>Normal Retirement Age</b> <u><b>Defined Benefit Component:</b></u> VRS: Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees: Not applicable.</b></p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> 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><b>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.</b></p>	<p><b>Earliest Unreduced Retirement Eligibility</b> 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><b>Political subdivisions hazardous duty employees: Same as Plan 1.</b></p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <u><b>Defined Benefit Component:</b></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><b>Political subdivisions hazardous duty employees: Not applicable.</b></p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> 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><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <u><b>Defined Benefit Component:</b></u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN:** (CONTINUED)

***Plan Description (CONTINUED)***

RETIREMENT PLAN PROVISIONS (CONTINUED)								
PLAN 1			PLAN 2			HYBRID RETIREMENT PLAN		
Earliest Eligibility (Cont.)	Reduced	Retirement	Earliest Eligibility (Cont.)	Reduced	Retirement	Earliest Eligibility (Cont.)	Reduced	Retirement
Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.			Political subdivisions hazardous duty employees: Same as Plan 1.			Political subdivisions hazardous duty employees: Not applicable.		
						<b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.		
<b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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%.			<b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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%.			<b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 2.		
<b><u>Eligibility:</u></b> 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.			<b><u>Eligibility:</u></b> Same as Plan 1.			<b><u>Defined Contribution Component:</u></b> Not applicable.		
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.						<b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.		

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

*Plan Description (CONTINUED)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></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"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**NOTE 4—PENSION PLAN: (CONTINUED)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> 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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>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.</p>
<p><b>Purchase of Prior Service</b> 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. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>•Hybrid Retirement Plan members are ineligible for ported service.</li> <li>•The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>•Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**NOTE 4—PENSION PLAN: (CONTINUED)**

***Plan Description (Continued)***

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-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% 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 contribution rate for the year ended June 30, 2016 was 12.17% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 \$76,159 and \$82,633 for the years ended June 30, 2016 and June 30, 2015, respectively.

***Net Pension Liability***

At June 30, 2016, the Authority reported a liability of \$505,758 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2015 and 2014 as a basis for allocation. At June 30, 2015 and 2014, the Authority's proportion was 8.28% and 8.28%, respectively.

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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**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, 2014, 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, 2015.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**NOTE 4—PENSION PLAN:** (CONTINUED)

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

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS: -

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**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>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**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, 2018, 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, 2018 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 Authority's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Authority's proportionate share of the net pension liability (asset)	\$ 859,839	\$ 505,758	\$ 211,833

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**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, 2016, the Authority recognized pension expense of \$52,571. 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, 2016, The Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,011	\$ -
Net difference between projected and actual earnings on pension plan investments	-	56,926
Employer contributions subsequent to the measurement date	<u>76,159</u>	<u>-</u>
Total	<u>\$ 114,170</u>	<u>\$ 56,926</u>

\$76,159 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2017	\$ (10,894)
2018	(10,894)
2019	(10,894)
2020	13,767
Thereafter	<u>-</u>
Total	(18,915)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

**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	170,676	1,936,442	-	2,107,118
Total capital assets not being depreciated	<u>\$ 435,513</u>	<u>\$ 1,936,442</u>	<u>\$ -</u>	<u>\$ 2,371,955</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 503,671	\$ 623,027.00	\$ -	\$ 1,126,698
Plant and lines	52,360,991	-	-	52,360,991
Total capital assets being depreciated	<u>\$ 52,864,662</u>	<u>\$ 623,027</u>	<u>\$ -</u>	<u>\$ 53,487,689</u>
Accumulated depreciation:				
Machinery and equipment	\$ (388,784)	\$ (107,087)	\$ -	\$ (495,871)
Plant and lines	(11,084,243)	(1,309,025)	-	(12,393,268)
Total accumulated depreciation	<u>\$ (11,473,027)</u>	<u>\$ (1,416,112)</u>	<u>\$ -</u>	<u>\$ (12,889,139)</u>
Total capital assets being depreciated, net	<u>\$ 41,391,635</u>	<u>\$ (793,085)</u>	<u>\$ -</u>	<u>\$ 40,598,550</u>
Capital assets, net	<u><u>\$ 41,827,148</u></u>	<u><u>\$ 1,143,357</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,970,505</u></u>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016**

**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, 2016:

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
Revenue Bonds	\$ 22,754,288	\$ 1,884,349	\$ (479,067)	\$ 24,159,570
Virginia Resource				
Authority Loans	1,407,829	-	(81,503)	1,326,326
Promissory Notes	159,704	-	(15,877)	143,827
Net Pension Liability	417,602	292,600	(204,444)	505,758
Compensated absences	103,643	56,713	(77,732)	82,624
Total	\$ 24,843,066	\$ 2,233,662	\$ (858,623)	\$ 26,218,105

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
2017	\$ 455,305	\$ 719,796	\$ 81,766	\$ 2,121	\$ 16,325	\$ 5,758
2018	501,858	763,083	81,996	1,891	17,027	5,056
2019	529,035	718,749	82,234	1,653	17,759	4,324
2020	546,265	701,519	82,478	1,409	18,522	3,560
2021	564,122	683,662	82,730	1,157	19,319	2,764
2022-2026	3,112,236	3,126,684	402,873	1,956	54,875	3,248
2027-2031	3,668,464	2,570,455	370,748	-	-	-
2032-2036	3,997,906	1,917,913	141,501	-	-	-
2037-2041	3,734,058	1,304,913	-	-	-	-
2042-2046	4,074,358	727,742	-	-	-	-
2047-2051	2,629,633	168,818	-	-	-	-
2052-2054	346,330	34,892	-	-	-	-
Totals	\$ 24,159,570	\$ 13,438,226	\$ 1,326,326	\$ 10,187	\$ 143,827	\$ 24,710

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016**

**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	\$ 738,717	\$ 21,008
Sewer Revenue Bond	3.25%	12/2/1999	6/2/2039	389,300	17,904/m	289,941	8,609
Sewer Revenue Bond	4.50%	12/17/2008	9/17/2048	3,261,000	179,616/m	3,056,081	42,961
Sewer Revenue Bond	2.38%	3/25/2010	3/25/2052	1,436,974	76,152/m	1,685,834	37,116
Sewer Revenue Bond	2.25%	12/13/2011	7/13/2039	2,000,000	78,480/m	1,913,893	35,810
Water Revenue Bond	4.50%	8/25/1994	4/25/2034	500,300	\$27,564/m	338,491	12,590
Water Revenue Bond	4.50%	4/28/1994	12/5/2037	1,345,400	68,856/m	899,127	34,355
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	650,000	38,676/m	478,309	17,511
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	168,700	6,432/m	79,434	2,917
Water Revenue Bond	4.50%	8/5/1998	12/31/2033	1,250,000	74,112/m	949,070	26,695
Water Revenue Bond	4.50%	12/17/2007	9/17/2037	469,000	25,836/m	433,312	6,470
Water Revenue Bond	4.38%	12/17/2007	6/17/2049	2,567,581	139,308/m	2,373,481	36,190
Water Revenue Bond	2.38%	3/31/2010	3/31/2052	5,000,000	200,400/m	4,635,349	91,300
Water Revenue Bond	2.38%	8/3/2010	5/3/2050	183,000	7,344/m	171,015	3,319
Water Revenue Bond	2.25%	11/16/2011	9/16/2051	1,000,000	39,240/m	955,430	17,925
Water/Sewer Rev. Bond	2.50%	5/28/2014	5/28/2054	1,256,000	4,271/m	1,249,721	20,123
Water Revenue Bond	2.00%	8/29/2013	8/28/2053	2,227,000	6,993/m	2,193,889	40,406
Water Revenue Bond	2.25%	9/1/2015	9/1/2047	2,054,000	6,573/m	1,718,476	-
Total Rural Development Bonds						\$ 24,159,570	\$ 455,305
<u>Virginia Resource Authority (VRA) Bonds</u>							
Water Revenue Bond	0.00%	1/1/2002	1/1/2032	\$ 1,173,928	\$19,565/sa	\$ 605,901	\$ 39,131
Water Revenue Bond	0.00%	6/30/2004	6/1/2035	1,129,000	17,509/sa	647,844	35,019
Water Revenue Bond	3.00%	6/30/2004	12/1/2024	153,200	4,869/sa	72,581	7,616
Total VRA Bonds						\$ 1,326,326	\$ 81,766
<u>Notes Payable</u>							
Promissory Note - Sewer	4.21%	4/28/2004	2/16/2024	\$ 250,000	\$1,543/m	\$ 122,718	\$ 13,622
Promissory Note - Water	4.25%	4/1/2013	4/15/2023	29,000	297/m	21,109	2,703
Total Notes Payable						\$ 143,827	\$ 16,325
<u>Other Long term Obligations</u>							
Net pension liability						\$ 505,758	\$ -
Compensated absences						82,624	61,968
Total Other Long term Obligations						\$ 588,382	\$ 61,968
Total Long-term Obligations						\$ 26,218,105	\$ 615,364

\* 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, 2016

**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%).

**Contingent Liabilities:**

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

**Construction Commitments:**

At June 30, 2016, the following construction commitments were outstanding:

Project:	Total Total Contract	Amount of Contract Outstanding	Accounts Payable	Retainage Payable
Cliffview Water Lines	\$ 2,170,813	\$ 789,062	\$ 68,019	\$ 73,917
Cliffview Water Lines - Engineering	N/A	N/A	7,117	-
Canawater Lines - Engineering	N/A	N/A	8,700	-
Total	\$ 2,170,813	\$ 789,062	\$ 83,836	\$ 73,917

**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.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016**

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**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, 2016, Wythe County owed the Authority \$369,898.

**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, 2016, 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.

**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 2016, the County contributed \$1,123,938 to help the Authority pay its debt service.

**NOTE 13 - SUBSEQUENT EVENTS:**

Subsequent to year-end the Authority approved a rate increase that varies based on each rate structure. Please contact the Authority for further information.

Subsequent to year-end the Authority accepted a funding package to refinance two loans in the total amount of \$2,847,614 over a period of 20 years with an interest rate 2.00%. The Authority projects to save \$8,837 in annual debt service with long term savings of \$176,735.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**NOTE 14 - ADOPTION OF ACCOUNTING PRINCIPLES:**

Governmental Accounting Standards Board Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Authority early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

**NOTE 15 - RESTATEMENT OF BEGINNING NET POSITION:**

As previously reported as of June 30, 2015, the revenue bond for the Exit 1 project was considered strictly Water. During fiscal year 2016, Rural Development identified this project to be both Water and Sewer, split at 45% and 55% respectively. The implementation of this change resulted in the following restatement of net position:

	Water Fund	Sewer Fund
Net Position as reported at June 30, 2015	\$ 10,794,287	\$ 7,542,331
Transfer To/From Fund	690,800	(690,800)
Net Position as restated at June 30, 2015	\$ 11,485,087	\$ 6,851,531

**NOTE 16 - UPCOMING PRONOUNCEMENTS:**

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AS OF JUNE 30, 2016

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**Note 16 - Upcoming Pronouncements: (CONTINUED)**

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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 Year Ended June 30, 2016

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 (6)
(1)	(2)	(3)	(4)	(5)	(6)
2015	8.2800%	\$ 505,758	\$ 625,793	80.82%	434.88%
2014	8.2800%	417,602	598,577	69.77%	510.11%

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 Contribution Requirements  
 For the Year Ended June 30, 2016

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

Date	Contractually Required Employer Contribution	Contributions Recognized by the Pension Plan	Difference in Contributions (1) - (2)	Annual Covered Payroll	Proportionate Share of Contrib. Recognized as a Percentage of Covered Payroll (2) / (4)
(1)	(1)	(2)	(3)	(4)	(5)
2016	\$ 76,159	\$ 76,159	- \$	625,793	12.17%
2015	82,633	82,633	-	678,989	12.17%

Current year contributions are from Authority records and prior year contributions are from the VRS actuarial valuation performed each year.

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, 2016

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In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

**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 was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

**Changes of assumptions** - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

**Largest 10 - Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**Largest 10 - LEOS:**

- Update mortality table
- Decrease in male rates of disability

**All Others (Non 10 Largest) - Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**All Others (Non 10 Largest) - LEOS:**

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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## **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, 2016

	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 350,391	\$ 350,391
Receivables (net of allowance for uncollectibles):			
Water and sewer billings	178,222	87,688	265,910
Note receivable	369,898	-	369,898
Grants receivable	29,608	-	29,608
Prepaid items	29,173	12,196	41,369
Restricted Current Assets:			
Cash and cash equivalents - debt service	\$ 430,683	\$ 222,497	\$ 653,180
Cash held for others - County gas revenue	668,678	-	668,678
Cash held for others - customer deposits	67,939	34,999	102,938
Total restricted current assets	\$ 1,167,300	\$ 257,496	\$ 1,424,796
Total current assets	\$ 1,774,201	\$ 707,771	\$ 2,481,972
Noncurrent Assets:			
Capital Assets:			
Land	\$ 254,837	\$ 10,000	\$ 264,837
Construction in progress	2,107,118	-	2,107,118
Machinery and equipment	736,922	389,776	1,126,698
Plant and lines	33,792,320	18,568,671	52,360,991
Accumulated depreciation	(8,637,983)	(4,251,156)	(12,889,139)
Total capital assets	\$ 28,253,214	\$ 14,717,291	\$ 42,970,505
Total assets	\$ 30,027,415	\$ 15,425,062	\$ 45,452,477
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Items related to measurement of net pension liability	\$ 28,508	\$ 9,503	\$ 38,011
Pension contributions subsequent to measurement date	57,431	18,728	76,159
Total deferred outflows of resources	\$ 85,939	\$ 28,231	\$ 114,170
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable - operations	\$ 78,461	\$ 61,655	\$ 140,116
Accounts payable - construction	157,753	-	157,753
Reconciled overdraft	63,000	-	63,000
Accrued interest payable	31,815	12,779	44,594
Amounts held for others	67,939	34,999	102,938
Due to County of Carroll, Virginia	732,147	12,723	744,870
Compensated absences - current portion	53,268	8,700	61,968
Bonds and notes payable - current portion	383,202	170,194	553,396
Total current liabilities	\$ 1,567,585	\$ 301,050	\$ 1,868,635
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 17,756	\$ 2,900	\$ 20,656
Net pension liability	379,318	126,440	505,758
Bonds and notes payable - net of current portion	16,751,990	8,324,337	25,076,327
Total noncurrent liabilities	\$ 17,149,064	\$ 8,453,677	\$ 25,602,741
Total liabilities	\$ 18,716,649	\$ 8,754,727	\$ 27,471,376
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Items related to measurement of net pension liability	\$ 42,700	\$ 14,226	\$ 56,926
<b>NET POSITION</b>			
Net investment in capital assets	\$ 11,108,602	\$ 6,096,320	\$ 17,204,922
Restricted	430,683	222,497	653,180
Unrestricted	(185,280)	365,523	180,243
Total net position	\$ 11,354,005	\$ 6,684,340	\$ 18,038,345

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, 2016

	Water Fund	Sewer Fund	Total
Operating Revenues:			
Water and sewer charges	\$ 1,710,590	\$ 765,684	\$ 2,476,274
Penalties and interest	72,841	16,269	89,110
State fees	10,486	-	10,486
Fire service	22,670	-	22,670
Miscellaneous	31,947	1,439	33,386
Total operating revenues	\$ 1,848,534	\$ 783,392	\$ 2,631,926
Operating Expenses:			
Salaries and fringes	\$ 801,440	\$ 112,675	\$ 914,115
Professional services	22,870	10,212	33,082
Repairs and maintenance	85,830	14,717	100,547
Operating materials and supplies	51,221	15,216	66,437
Vehicle supplies and fuel	27,423	19,670	47,093
Utilities	132,811	56,954	189,765
Office and insurance expenses	132,413	78,984	211,397
Miscellaneous	6,493	2,001	8,494
Water and sewage treatment purchases	277,140	386,188	663,328
Depreciation expense	913,686	502,426	1,416,112
Total operating expenses	\$ 2,451,327	\$ 1,199,043	\$ 3,650,370
Operating income (loss)	\$ (602,793)	\$ (415,651)	\$ (1,018,444)
Nonoperating Revenues (Expenses):			
Connection fees	\$ 47,988	\$ 1,775	\$ 49,763
Interest income	11,328	9,923	21,251
Interest expense	(446,568)	(286,688)	(733,256)
Contribution to New River Regional Water Authority	(283,083)	-	(283,083)
Contributions from Carroll County, Virginia	778,131	345,807	1,123,938
Total nonoperating revenues (expenses)	\$ 107,796	\$ 70,817	\$ 178,613
Income (loss) before construction grants	\$ (494,997)	\$ (344,834)	\$ (839,831)
Construction grants:			
Construction grants	\$ 381,181	\$ 160,377	\$ 541,558
Transfers in/(out)	\$ (17,266)	\$ 17,266	\$ -
Change in net position	\$ (131,082)	\$ (167,191)	\$ (298,273)
Net position, beginning of year, as restated	11,485,087	6,851,531	18,336,618
Net position, end of year	\$ 11,354,005	\$ 6,684,340	\$ 18,038,345

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)  
Combining Statement of Cash Flows  
For the Year Ended June 30, 2016

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 1,853,204	\$ 786,163	\$ 2,639,367
Payments to employees for services	(674,237)	(124,905)	(799,142)
Payments to suppliers for goods and services	(722,076)	(607,119)	(1,329,195)
Net cash provided by (used for) operating activities	\$ 456,891	\$ 54,139	\$ 511,030
Cash flows from noncapital financing activities:			
Interfund borrowings	\$ (17,266)	\$ 17,266	\$ -
Contribution from Carroll County	778,131	345,807	1,123,938
Net cash provided by (used in) noncapital financing activities	\$ 760,865	\$ 363,073	\$ 1,123,938
Cash flows from capital and related financing activities:			
Connection charges	\$ 47,988	\$ 1,775	\$ 49,763
Purchase of capital assets	(2,221,742)	(243,399)	(2,465,141)
Contribution to NRRWA	(283,083)	-	(283,083)
Contributions in aid of construction	436,126	160,377	596,503
Payments from Wythe County on note receivable	7,010	-	7,010
Proceeds from indebtedness	1,718,476	165,873	1,884,349
Principal payments on indebtedness	(360,060)	(216,387)	(576,447)
Interest expense	(485,630)	(284,321)	(769,951)
Net cash provided by (used for) capital and related financing activities	\$ (1,140,915)	\$ (416,082)	\$ (1,556,997)
Cash flows from investing activities:			
Interest income	\$ 11,328	\$ 9,923	\$ 21,251
Increase (decrease) in cash and cash equivalents	\$ 88,169	\$ 11,053	\$ 99,222
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$1,559,114)	1,016,131	596,834	1,612,965
Cash and cash equivalents at end of year (including restricted cash equivalents of \$1,424,796)	\$ 1,104,300	\$ 607,887	\$ 1,712,187
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (602,793)	\$ (415,651)	\$ (1,018,444)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	913,686	502,426	1,416,112
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	3,168	1,997	5,165
(Increase) decrease in prepaid items	(2,104)	304	(1,800)
(Increase) decrease in pension contributions subsequent to the measurement date	(23,961)	(7,576)	(31,537)
Increase (decrease) in operating payables	16,229	(23,481)	(7,252)
Increase (decrease) in amount due to Carroll County for payroll	150,872	1,330	152,202
Increase (decrease) in customer deposits	1,502	774	2,276
Increase (decrease) in compensated absences	(11,209)	(9,810)	(21,019)
Increase (decrease) in net pension liability	66,117	22,039	88,156
Increase (decrease) in items related to measurement of net pension liability	(54,616)	(18,213)	(72,829)
Net cash provided by (used for) operating activities	\$ 456,891	\$ 54,139	\$ 511,030
Noncash investing, capital, or financing transactions:			
Interest paid during the year on indebtedness and included in capital assets	\$ 19,128	\$ -	\$ 19,128
Construction payables	157,753	-	157,753
Construction payables prior fiscal year	(82,553)	-	(82,553)



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## COMPLIANCE SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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To the Board Members of  
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, 2016, 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 December 10, 2016.

### 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.

*Robinson, Farmer, Co. Associates*

Blacksburg, Virginia

December 10, 2016

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

### Report on Compliance for Each Major Federal Program

We have audited Carroll County Public Service Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2016. Carroll County Public Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

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

### *Auditors' Responsibility*

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

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

### *Opinion on Each Major Federal Program*

In our opinion, Carroll County Public Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



## Report on Internal Control over Compliance

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

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

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

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

*Robinson, Faener, Co. Associates*

Blacksburg, Virginia  
December 10, 2016



PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY, VIRGINIA)  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

Federal Grantor/ State Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE:</b>			
Direct payments:			
Water and Waste Program Cluster:			
Water and Waste Disposal Systems for Rural Communities	10.760	Not applicable	\$ 2,112,708
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	Not applicable	283,592
Water and Waste Disposal Systems for Rural Communities Cluster Total:			\$ 2,396,300
Part 1774 - Special Evaluation Assistance for Rural Communities and Households Program (SEARCH)	10.759	Not applicable	25,000
Total Expenditures of Federal Awards			<u>\$ 2,421,300</u>

Notes to Schedule of Expenditures of Federal Awards

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Carroll County Public Service Authority under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance (and/or OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, when OMB Circular A-133 is applicable) wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

(3) The Authority did not elect an indirect cost rate because they only request direct costs for reimbursement.

NOTE 3--SUBRECIPIENTS:

The Authority did not have any subrecipients for the year ended June 30, 2016.

NOTE 4--FEDERAL LOANS:

The Authority has loans outstanding to USDA Rural Development in the amount of \$24,159,570 at year end.

NOTE 5--RELATIONSHIP TO FINANCIAL STATEMENTS:

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

Intergovernmental federal revenues:	\$ 536,950
Federal loan proceeds:	1,884,350
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 2,421,300</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY, VIRGINIA)  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016

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

**Financial Statements**

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

**Federal Awards**

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

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.760/10.781	Water and Waste Program Cluster

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

**Section II - Financial Statement Findings**

There are no financial statement findings to report.

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

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

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

There were no prior audit findings.