

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

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2017, 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, 2017, 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.

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 5, 2017, 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.

A handwritten signature in cursive script that reads "Robinson, James, Cox Associates".

Blacksburg, Virginia
December 5, 2017

Basic Financial Statements

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Net Position
As of June 30, 2017

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 333,954
Receivables (net of allowance for uncollectibles):	
Water and sewer billings	310,603
Note receivable	362,721
Grants receivable	35,994
Prepaid items	38,890
Restricted Current Assets:	
Cash and cash equivalents - debt service	\$ 653,180
Cash held for others - customer deposits	108,688
Total restricted current assets	<u>\$ 761,868</u>
Total current assets	<u>\$ 1,844,030</u>
Noncurrent Assets:	
Capital Assets:	
Land	\$ 264,837
Construction in progress	44,357
Machinery and equipment	1,126,698
Plant and lines	55,373,240
Accumulated depreciation	(14,315,515)
Total capital assets	<u>\$ 42,493,617</u>
Total noncurrent assets	<u>42,493,617</u>
Total assets	<u>\$ 44,337,647</u>
DEFERRED OUTFLOWS OF RESOURCES	
Items related to measurement of net pension liability	\$ 104,213
Pension contributions subsequent to measurement date	71,110
Total deferred outflows of resources	<u>\$ 175,323</u>
LIABILITIES	
Current liabilities:	
Accounts payable - operations	\$ 97,562
Accrued interest payable	73,139
Amounts held for others	108,688
Due to County of Carroll, Virginia	65,942
Compensated absences - current portion	59,845
Bonds and notes payable - current portion	653,877
Total current liabilities	<u>\$ 1,059,053</u>
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 19,948
Net pension liability	641,774
Bonds and notes payable - net of current portion	24,795,265
Total noncurrent liabilities	<u>\$ 25,456,987</u>
Total liabilities	<u>\$ 26,516,040</u>
DEFERRED INFLOWS OF RESOURCES	
Items related to measurement of net pension liability	\$ 880
NET POSITION	
Net investment in capital assets	\$ 17,407,196
Restricted	653,180
Unrestricted	(64,326)
Total net position	<u>\$ 17,996,050</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 Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2017

Operating Revenues:	
Water and sewer charges	\$ 2,619,801
Penalties and interest	77,572
State fees	10,546
Fire service	22,350
Miscellaneous	<u>45,440</u>
 Total operating revenues	 \$ <u>2,775,709</u>
Operating Expenses:	
Salaries and fringes	\$ 918,297
Professional services	34,299
Repairs and maintenance	143,689
Operating materials and supplies	65,260
Vehicle supplies and fuel	47,275
Utilities	194,350
Office and insurance expenses	291,218
Miscellaneous	42,670
Water and sewage treatment purchases	666,346
Depreciation expense	<u>1,426,376</u>
 Total operating expenses	 \$ <u>3,829,780</u>
 Operating income (loss)	 \$ <u>(1,054,071)</u>
Nonoperating Revenues (Expenses):	
Connection fees	\$ 55,684
Interest income	20,009
Interest expense	(712,074)
Contribution to New River Regional Water Authority	(282,829)
Contributions from Primary Government	<u>1,036,533</u>
 Total nonoperating revenues (expenses)	 \$ <u>117,323</u>
 Income (loss) before capital contributions	 \$ <u>(936,748)</u>
Construction grants:	
Construction grants	\$ <u>789,176</u>
 Change in net position	 \$ (147,572)
 Net position, beginning of year, as restated	 <u>18,143,622</u>
 Net position, end of year	 \$ <u><u>17,996,050</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, 2017

	<u>Total</u>
Cash flows from operating activities:	
Receipts from customers	\$ 2,842,022
Payments to employees for services	(912,540)
Payments to suppliers for goods and services	<u>(1,525,182)</u>
Net cash provided by (used for) operating activities	\$ <u>404,300</u>
Cash flows from noncapital financing activities:	
Contribution to Carroll County - gas receipts	\$ (668,678)
Contribution from Carroll County	<u>1,036,533</u>
Net cash provided by (used in) noncapital financing activities	\$ <u>367,855</u>
Cash flows from capital and related financing activities:	
Connection charges	\$ 55,684
Purchase of capital assets	(1,071,388)
Contribution to NRRWA	(282,829)
Contributions in aid of construction	782,790
Payments from Wythe County on note receivable	7,177
Proceeds from indebtedness	3,128,651
Principal payments on indebtedness	(3,309,232)
Interest payments on indebtedness	<u>(719,382)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(1,408,529)</u>
Cash flows from investing activities:	
Interest income	\$ <u>20,009</u>
Increase (decrease) in cash and cash equivalents	\$ (616,365)
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$1,424,796)	<u>1,712,187</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$761,868)	\$ <u><u>1,095,822</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (1,054,071)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,426,376
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	60,563
(Increase) decrease in prepaid items	2,479
(Increase) decrease in pension contributions subsequent to the measurement date	(61,153)
Increase (decrease) in operating payables	(42,554)
Increase (decrease) in amount due to Carroll County for payroll	(10,250)
Increase (decrease) in customer deposits	5,750
Increase (decrease) in compensated absences	(2,831)
Increase (decrease) in net pension liability	136,016
Increase (decrease) in items related to measurement of net pension liability	<u>(56,025)</u>
Net cash provided by (used for) operating activities	\$ <u><u>404,300</u></u>
Noncash investing, capital, or financing transactions:	
Interest paid during the year on indebtedness and included in capital assets	\$ 35,853
Construction payables prior fiscal year	(157,753)

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

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

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2017

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, 2017.

B. Basis of Accounting:

Proprietary Funds - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Capital Assets:

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not to be capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest capitalized during the fiscal year totaled \$35,853.

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, 2017

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, 2017, the allowance amounted to approximately \$223,138.

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 \$761,868. 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, 2017

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, and the net differences between projected and actual earnings on pension plan investments. It is also comprised of 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, 2017

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, 2017.

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, 2017, the Authority owes County of Carroll, Virginia \$65,942 for prior payroll services.

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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, 2017**

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:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. 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>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. 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>About the Hybrid Retirement Plan 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"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</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)
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NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit (Cont.)</p>	<p>Calculating the Benefit (Cont.) Defined Contribution Component: 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.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>

**PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: 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, 2017

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (CONTINUED)

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</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>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. 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>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. •The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. •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. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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NOTE 4—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 11.20% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$71,110 and \$76,159 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

At June 30, 2017, the Authority reported a liability of \$641,774 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2016 and 2015 as a basis for allocation. At June 30, 2016 and 2015, the Authority's proportion was 8.27% and 8.28%, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

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, 2015, 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, 2016.

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, 2017

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, 2015 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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

NOTE 4—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (CONTINUED)

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

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, 2017

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 the net pension liability of the Authority 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:

Authority’s proportionate share of the net pension liability (asset)	Rate		
	(6.00%)	(7.00%)	(8.00%)
Water Fund	\$ 758,984	\$ 480,992	\$ 250,252
Sewer Fund	253,403	160,589	83,552

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

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, 2017, the Authority recognized pension expense of \$89,223. 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, 2017, The Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Water Fund		Sewer Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,227	\$ -	\$ 11,750	\$ -
Net difference between projected and actual earnings on pension plan investments	42,899	-	14,337	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	627	-	253
Employer contributions subsequent to the measurement date	53,333	-	17,777	-
Total	\$ 131,459	\$ 627	\$ 43,864	\$ 253

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

NOTE 4—PENSION PLAN: (CONTINUED)

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

\$71,110 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, 2018. 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>	<u>Water Fund</u>	<u>Sewer Fund</u>
2018	\$ 13,480	\$ 4,494
2019	13,480	4,494
2020	31,971	10,658
2021	18,568	6,188
Total	<u>77,499</u>	<u>25,834</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

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	2,107,118	949,488	(3,012,249)	44,357
Total capital assets not being depreciated	\$ 2,371,955	\$ 949,488	\$ (3,012,249)	\$ 309,194
Capital asset, being depreciated				
Machinery and equipment	\$ 1,126,698	\$ -	\$ -	\$ 1,126,698
Plant and lines	52,360,991	3,012,249	-	55,373,240
Total capital assets being depreciated	\$ 53,487,689	\$ 3,012,249	\$ -	\$ 56,499,938
Accumulated depreciation:				
Machinery and equipment	\$ (495,871)	\$ (97,853)	\$ -	\$ (593,724)
Plant and lines	(12,393,268)	(1,328,523)	-	(13,721,791)
Total accumulated depreciation	\$ (12,889,139)	\$ (1,426,376)	\$ -	\$ (14,315,515)
Total capital assets being depreciated, net	\$ 40,598,550	\$ 1,585,873	\$ -	\$ 42,184,423
Capital assets, net	\$ 42,970,505	\$ 2,535,361	\$ (3,012,249)	\$ 42,493,617

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

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, 2017:

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
Revenue Bonds	\$ 24,159,570	\$ 335,524	\$ (3,210,986)	\$ 21,284,108
Virginia Resource				
Authority Loans	1,326,326	2,793,127	(81,725)	4,037,728
Promissory Notes	143,827	-	(16,521)	127,306
Net Pension Liability	505,758	282,277	(146,261)	641,774
Compensated absences	82,624	59,137	(61,968)	79,793
	<u>\$ 26,218,105</u>	<u>\$ 3,470,065</u>	<u>\$ (3,517,461)</u>	<u>\$ 26,170,709</u>
Total	\$ 26,218,105	\$ 3,470,065	\$ (3,517,461)	\$ 26,170,709

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
2018	\$ 451,900	\$ 659,096	\$ 184,950	\$ 116,865	\$ 17,027	\$ 5,056
2019	475,150	607,490	187,918	114,134	17,759	4,324
2020	490,135	592,505	190,767	111,529	18,522	3,560
2021	505,650	576,990	193,688	108,860	19,319	2,764
2022	521,715	560,924	196,683	106,125	20,149	1,933
2023-2027	2,870,426	2,542,774	1,005,947	462,833	34,530	1,316
2028-2032	3,368,290	2,044,910	1,041,738	339,107	-	-
2033-2037	3,459,734	1,483,589	868,178	74,118	-	-
2038-2042	3,063,403	1,009,275	167,859	3,091	-	-
2043-2047	3,406,626	569,754	-	-	-	-
2048-2052	2,247,132	176,265	-	-	-	-
2053-2054	423,947	12,053	-	-	-	-
	<u>\$ 21,284,108</u>	<u>\$ 10,835,625</u>	<u>\$ 4,037,728</u>	<u>\$ 1,436,662</u>	<u>\$ 127,306</u>	<u>\$ 18,953</u>
Totals	\$ 21,284,108	\$ 10,835,625	\$ 4,037,728	\$ 1,436,662	\$ 127,306	\$ 18,953

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017**

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	\$ 717,712	\$ 21,973
Sewer Revenue Bond	3.25%	12/2/1999	6/2/2039	389,300	17,904/m	281,334	8,892
Sewer Revenue Bond	4.50%	12/17/2008	9/17/2048	3,261,000	179,616/m	3,013,116	44,936
Sewer Revenue Bond	2.38%	3/25/2010	3/25/2052	1,436,974	76,152/m	1,652,555	37,400
Sewer Revenue Bond	2.25%	12/13/2011	7/13/2039	2,000,000	78,480/m	1,878,110	36,624
Water Revenue Bond	4.50%	8/25/1994	4/25/2034	500,300	\$27,564/m	325,902	13,168
Water Revenue Bond	4.50%	4/28/1994	12/5/2037	1,345,400	68,856/m	864,775	35,933
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	650,000	38,676/m	460,800	18,315
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	168,700	6,432/m	76,517	3,051
Water Revenue Bond	4.50%	8/5/1998	12/31/2033	1,250,000	74,112/m	922,378	27,921
Water Revenue Bond	2.38%	3/31/2010	3/31/2052	5,000,000	200,400/m	4,544,053	93,493
Water Revenue Bond	2.38%	8/3/2010	5/3/2050	183,000	7,344/m	167,658	3,399
Water Revenue Bond	2.25%	11/16/2011	9/16/2051	1,000,000	39,240/m	937,504	18,332
Water Revenue Bond	2.50%	5/28/2014	5/28/2054	1,256,000	4,271/m	1,234,211	20,632
Water Revenue Bond	2.00%	8/29/2013	8/28/2053	2,227,000	6,993/m	2,153,483	41,222
Water Revenue Bond	2.25%	9/1/2015	9/1/2047	2,054,000	6,573/m	2,054,000	26,609
Total Rural Development Bonds						<u>\$ 21,284,108</u>	<u>\$ 451,900</u>
<u>Virginia Resource Authority (VRA) Bonds</u>							
Water Revenue Bond	0.00%	1/1/2002	1/1/2032	\$ 1,173,928	\$19,565/sa	\$ 566,810	\$ 39,131
Water Revenue Bond	0.00%	6/30/2004	6/1/2035	1,129,000	17,509/sa	612,826	35,018
Water Revenue Bond	3.00%	6/30/2004	12/1/2024	153,200	4,869/sa	64,965	7,847
Water Revenue Bond	2.45%	2/28/2017	3/1/2038	2,793,127	85,475/sa	2,793,127	102,954
Total VRA Bonds						<u>\$ 4,037,728</u>	<u>\$ 184,950</u>
<u>Notes Payable</u>							
Promissory Note - Sewer	4.21%	4/28/2004	2/16/2024	\$ 250,000	\$1,543/m	\$ 108,917	\$ 14,207
Promissory Note - Water	4.25%	4/1/2013	4/15/2023	29,000	297/m	18,389	2,820
Total Notes Payable						<u>\$ 127,306</u>	<u>\$ 17,027</u>
<u>Other Long term Obligations</u>							
Net pension liability						\$ 641,774	\$ -
Compensated absences						79,793	59,845
Total Other Long term Obligations						<u>\$ 721,567</u>	<u>\$ 59,845</u>
Total Long-term Obligations						<u>\$ 26,170,709</u>	<u>\$ 713,722</u>

* 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, 2017

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.

NOTE 8 - RISK MANAGEMENT:

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

NOTE 9 - NOTE RECEIVABLE:

On February 26, 2009, County of Wythe, Virginia and the Authority agreed to a cost sharing agreement related to the Pump Station and Water Transmission Main (Long Range) project. Carroll County Public Service Authority financed the project and provided oversight for the construction. The agreement states that County of Wythe, Virginia will pay twenty two percent of the debt service and annual operation and maintenance costs of the Pump Station and Water Transmission Main. Each entity has agreed to own the corresponding percentage of the infrastructure. Thus, County of Wythe, Virginia received an asset in the amount of \$580,453. Of this amount, \$398,663 represents a receivable from Wythe County and a grant in the amount of \$181,790. As of June 30, 2017, Wythe County owed the Authority \$362,721.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

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, 2017, 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 2017, the County contributed \$1,036,533 to help the Authority pay its debt service.

NOTE 13 - RESTATEMENT OF BEGINNING NET POSITION:

	Water Fund	Sewer Fund	Total
Net Position as reported at June 30, 2016	\$ 11,354,005	\$ 6,684,340	\$ 18,038,345
Record unbilled accounts receivable	71,850	33,427	105,277
Net Position as restated at June 30, 2016	\$ 11,425,855	\$ 6,717,767	\$ 18,143,622

NOTE 14 - UPCOMING PRONOUNCEMENTS:

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. 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2017

NOTE 14 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

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

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

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

Required Supplementary Information

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Schedule of the Authority's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2017

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)
2016	8.2700%	\$ 641,774	\$ 630,530	101.78%	344.70%
2015	8.2800%	505,758	621,183	81.42%	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 Employer Contributions
For the Years Ended June 30, 2015 through June 30, 2017

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)
2017	\$ 71,110	\$ 71,110	\$ -	635,397	11.19%
2016	76,159	76,159	-	630,530	12.08%
2015	82,633	82,633	-	621,183	13.30%

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
June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are 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

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, 2017

ASSETS	Water Fund	Sewer Fund	Total
Current Assets:			
Cash and cash equivalents	\$ 190,128	\$ 143,826	\$ 333,954
Receivables (net of allowance for uncollectibles):			
Water and sewer billings	214,374	96,229	310,603
Note receivable	362,721	-	362,721
Grants receivable	35,994	-	35,994
Prepaid items	33,534	5,356	38,890
Restricted Current Assets:			
Cash and cash equivalents - debt service	\$ 395,761	\$ 257,419	\$ 653,180
Cash held for others - customer deposits	71,734	36,954	108,688
Total restricted current assets	<u>\$ 467,495</u>	<u>\$ 294,373</u>	<u>\$ 761,868</u>
Total current assets	<u>\$ 1,304,246</u>	<u>\$ 539,784</u>	<u>\$ 1,844,030</u>
Noncurrent Assets:			
Capital Assets:			
Land	\$ 254,837	\$ 10,000	\$ 264,837
Construction in progress	44,357	-	44,357
Machinery and equipment	736,922	389,776	1,126,698
Plant and lines	36,804,569	18,568,671	55,373,240
Accumulated depreciation	<u>(9,567,425)</u>	<u>(4,748,090)</u>	<u>(14,315,515)</u>
Total capital assets	<u>\$ 28,273,260</u>	<u>\$ 14,220,357</u>	<u>\$ 42,493,617</u>
Total assets	<u>\$ 29,577,506</u>	<u>\$ 14,760,141</u>	<u>\$ 44,337,647</u>
DEFERRED OUTFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 78,126	\$ 26,087	\$ 104,213
Pension contributions subsequent to measurement date	<u>53,333</u>	<u>17,777</u>	<u>71,110</u>
Total deferred outflows of resources	<u>\$ 131,459</u>	<u>\$ 43,864</u>	<u>\$ 175,323</u>
LIABILITIES			
Current liabilities:			
Accounts payable - operations	\$ 32,764	\$ 64,798	\$ 97,562
Accrued interest payable	63,758	9,381	73,139
Amounts held for others	71,734	36,954	108,688
Due to County of Carroll, Virginia	55,848	10,094	65,942
Compensated absences - current portion	48,261	11,584	59,845
Bonds and notes payable - current portion	<u>489,845</u>	<u>164,032</u>	<u>653,877</u>
Total current liabilities	<u>\$ 762,210</u>	<u>\$ 296,843</u>	<u>\$ 1,059,053</u>
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 16,087	\$ 3,861	\$ 19,948
Net pension liability	480,819	160,955	641,774
Bonds and notes payable - net of current portion	<u>16,628,737</u>	<u>8,166,528</u>	<u>24,795,265</u>
Total noncurrent liabilities	<u>\$ 17,125,643</u>	<u>\$ 8,331,344</u>	<u>\$ 25,456,987</u>
Total liabilities	<u>\$ 17,887,853</u>	<u>\$ 8,628,187</u>	<u>\$ 26,516,040</u>
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	<u>\$ 627</u>	<u>\$ 253</u>	<u>\$ 880</u>
NET POSITION			
Net investment in capital assets	\$ 11,517,399	\$ 5,889,797	\$ 17,407,196
Restricted	395,761	257,419	653,180
Unrestricted	<u>(92,675)</u>	<u>28,349</u>	<u>(64,326)</u>
Total net position	<u>\$ 11,820,485</u>	<u>\$ 6,175,565</u>	<u>\$ 17,996,050</u>

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, 2017

	Water Fund	Sewer Fund	Total
Operating Revenues:			
Water and sewer charges	\$ 1,844,983	\$ 774,818	\$ 2,619,801
Penalties and interest	77,572	-	77,572
State fees	10,546	-	10,546
Fire service	22,350	-	22,350
Miscellaneous	14,708	30,732	45,440
	<u>1,970,159</u>	<u>805,550</u>	<u>2,775,709</u>
Total operating revenues			
Operating Expenses:			
Salaries and fringes	\$ 771,862	\$ 146,435	\$ 918,297
Professional services	29,106	5,193	34,299
Repairs and maintenance	123,690	19,999	143,689
Operating materials and supplies	48,012	17,248	65,260
Vehicle supplies and fuel	23,106	24,169	47,275
Utilities	134,464	59,886	194,350
Office and insurance expenses	241,081	50,137	291,218
Miscellaneous	5,537	37,133	42,670
Water and sewage treatment purchases	272,211	394,135	666,346
Depreciation expense	929,443	496,933	1,426,376
	<u>2,578,512</u>	<u>1,251,268</u>	<u>3,829,780</u>
Total operating expenses			
Operating income (loss)	\$ <u>(608,353)</u>	\$ <u>(445,718)</u>	\$ <u>(1,054,071)</u>
Nonoperating Revenues (Expenses):			
Connection fees	\$ 52,434	\$ 3,250	\$ 55,684
Interest income	10,387	9,622	20,009
Interest expense	(426,718)	(285,356)	(712,074)
Contribution to New River Regional Water Authority	(282,829)	-	(282,829)
Contributions from Carroll County, Virginia	831,213	205,320	1,036,533
	<u>184,487</u>	<u>(67,164)</u>	<u>117,323</u>
Total nonoperating revenues (expenses)			
Income (loss) before construction grants	\$ <u>(423,866)</u>	\$ <u>(512,882)</u>	\$ <u>(936,748)</u>
Construction grants:			
Construction grants	\$ <u>789,176</u>	\$ <u>-</u>	\$ <u>789,176</u>
Transfers in/(out)	<u>29,320</u>	<u>(29,320)</u>	<u>-</u>
Change in net position	\$ 394,630	\$ (542,202)	\$ (147,572)
Net position, beginning of year, as restated	<u>11,425,855</u>	<u>6,717,767</u>	<u>18,143,622</u>
Net position, end of year	<u>\$ 11,820,485</u>	<u>\$ 6,175,565</u>	<u>\$ 17,996,050</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Cash Flows
For the Year Ended June 30, 2017

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 2,009,631	\$ 832,391	\$ 2,842,022
Payments to employees for services	(772,230)	(140,310)	(912,540)
Payments to suppliers for goods and services	(927,265)	(597,917)	(1,525,182)
Net cash provided by (used for) operating activities	<u>\$ 310,136</u>	<u>\$ 94,164</u>	<u>\$ 404,300</u>
Cash flows from noncapital financing activities:			
Interfund borrowings	\$ 29,320	\$ (29,320)	\$ -
Contribution of cash held for Carroll County - gas receipts	(668,678)	-	(668,678)
Contribution from Carroll County	831,213	205,320	1,036,533
Net cash provided by (used in) noncapital financing activities	<u>\$ 191,855</u>	<u>\$ 176,000</u>	<u>\$ 367,855</u>
Cash flows from capital and related financing activities:			
Connection charges	\$ 52,434	\$ 3,250	\$ 55,684
Purchase of capital assets	(1,071,388)	-	(1,071,388)
Contribution to NRRWA	(282,829)	-	(282,829)
Contributions in aid of construction	782,790	-	782,790
Payments from Wythe County on note receivable	7,177	-	7,177
Proceeds from indebtedness	3,128,651	-	3,128,651
Principal payments on indebtedness	(3,145,261)	(163,971)	(3,309,232)
Interest expense	(430,629)	(288,753)	(719,382)
Net cash provided by (used for) capital and related financing activities	<u>\$ (959,055)</u>	<u>\$ (449,474)</u>	<u>\$ (1,408,529)</u>
Cash flows from investing activities:			
Interest income	\$ 10,387	\$ 9,622	\$ 20,009
Increase (decrease) in cash and cash equivalents	\$ (446,677)	\$ (169,688)	\$ (616,365)
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$1,424,796)	<u>1,104,300</u>	<u>607,887</u>	<u>1,712,187</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$761,868)	<u>\$ 657,623</u>	<u>\$ 438,199</u>	<u>\$ 1,095,822</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (608,353)	\$ (445,718)	\$ (1,054,071)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	929,443	496,933	1,426,376
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	35,677	24,886	60,563
(Increase) decrease in prepaid items	(4,361)	6,840	2,479
(Increase) decrease in pension contributions subsequent to the measurement date	(45,520)	(15,633)	(61,153)
Increase (decrease) in operating payables	(45,697)	3,143	(42,554)
Increase (decrease) in amount due to Carroll County for payroll	(7,621)	(2,629)	(10,250)
Increase (decrease) in customer deposits	3,795	1,955	5,750
Increase (decrease) in compensated absences	(6,676)	3,845	(2,831)
Increase (decrease) in net pension liability	101,501	34,515	136,016
Increase (decrease) in items related to measurement of net pension liability	(42,052)	(13,973)	(56,025)
Net cash provided by (used for) operating activities	<u>\$ 310,136</u>	<u>\$ 94,164</u>	<u>\$ 404,300</u>
Noncash investing, capital, or financing transactions:			
Interest paid during the year on indebtedness and included in capital assets	\$ 35,853	\$ -	\$ 35,853
Construction payables prior fiscal year	(157,753)	-	(157,753)

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2017, 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 5, 2017.

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.

A handwritten signature in cursive script that reads "Robinson, James, Cox Associates".

Blacksburg, Virginia
December 5, 2017

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, 2017. 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, 2017.

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.



Blacksburg, Virginia
December 5, 2017

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ State Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>DEPARTMENT OF AGRICULTURE:</i>			
Direct payments:			
Water and Waste Program Cluster:			
Water and Waste Disposal Systems for Rural Communities	10.760	Not applicable	<u>\$ 1,082,165</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,082,165</u></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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

(4) The Authority did not have any subrecipients during the fiscal year.

NOTE 3--FEDERAL LOANS:

As of June 30, 2017, the Authority owed \$21,284,108 in federal loans payable to USDA Rural Development.

NOTE 4--RELATIONSHIP TO FINANCIAL STATEMENTS:

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

Construction grants	\$ 789,176
Less: State and local grants	(42,535)
Federal loan proceeds	335,524
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 1,082,165</u></u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2017

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:

CFDA #	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

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