



FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2020

NRV REGIONAL WATER AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

**NRV REGIONAL WATER AUTHORITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020**

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INTRODUCTORY SECTION

NRV REGIONAL WATER AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

JUNE 30, 2020

BOARD OF DIRECTORS

William R. Knocke, Chairman

Marc A. Verniel, Vice Chairman

Wayne O. Nelson, Secretary

F. Craig Meadows, Treasurer

Christopher H. Kiwus

EXECUTIVE DIRECTOR

Caleb Taylor, PE

FINANCIAL SECTION



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the NRV Regional Water Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the NRV Regional Water Authority, as of June 30, 2020, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 14 to the financial statements, in 2020, the Authority adopted new accounting guidance, GASB Statement Nos. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* and early implemented GASB No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 15 to the financial statements, in 2020, the Authority restated beginning balances to correct the capital asset listing. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules related to pension and OPEB funding on pages 38-45 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the NRV Regional Water Authority's basic financial statements. The introductory section and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary and Other Information (Continued)

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

Report on Summarized Comparative Information

Other auditors previously audited NRV Regional Water Authority's 2019 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated October 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2020, on our consideration of the NRV Regional Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NRV Regional Water Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NRV Regional Water Authority's internal control over financial reporting and compliance.



Blacksburg, Virginia
October 12, 2020

Basic Financial Statements

NRV Regional Water Authority
Statement of Net Position
At June 30, 2020
(With Comparative Totals at June 30, 2019)

	2020	2019
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 8,232,375	\$ 7,840,380
Accounts receivable - members	2,019,911	2,219,350
Accounts receivable - others	1,448	-
Capital contribution receivable - current portion	24,723	24,238
Prepaid expenses	88,528	90,713
Inventory	31,560	31,560
Total current assets	\$ 10,398,545	\$ 10,206,241
Noncurrent Assets:		
Restricted cash and cash equivalents	\$ 7,100,928	\$ 551,219
Capital contribution receivable - net of current portion	1,116,214	1,140,462
Capital assets, net of depreciation	27,847,219	18,314,875
Total noncurrent assets	\$ 36,064,361	\$ 20,006,556
Total assets	\$ 46,462,906	\$ 30,212,797
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred amount on refunding	\$ 96,864	\$ 103,216
Pension related items	571,244	378,281
OPEB related items	534,337	393,532
Total deferred outflows of resources	\$ 1,202,445	\$ 875,029
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 227,662	\$ 125,923
Construction payables	2,350,638	299,269
Interest payable	150,089	60,017
Unearned revenue	33,892	-
Compensated absences - current portion	88,825	86,805
Revenue bonds - current portion	387,498	155,000
Total current liabilities	\$ 3,238,604	\$ 727,014
Noncurrent Liabilities:		
Compensated absences - net of current portion	\$ 266,473	\$ 260,413
Net OPEB liabilities	2,105,328	1,896,396
Net pension liability	2,918,997	2,637,022
Revenue bonds - net of current portion	15,015,655	5,403,985
Total noncurrent liabilities	\$ 20,306,453	\$ 10,197,816
Total liabilities	\$ 23,545,057	\$ 10,924,830
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension related items	\$ 169,790	\$ 209,636
OPEB related items	14,450	18,173
Total deferred inflows of resources	\$ 184,240	\$ 227,809
<u>NET POSITION</u>		
Net investment in capital assets	\$ 17,291,220	\$ 13,111,056
Unrestricted	6,644,834	6,824,131
Total net position	\$ 23,936,054	\$ 19,935,187

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

NRV Regional Water Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
Operating Revenues:		
Water sales	\$ 9,054,340	\$ 9,170,032
Other	5,674	4,336
Total operating revenues	\$ 9,060,014	\$ 9,174,368
Operating Expenses:		
Salaries and employee benefits	\$ 2,318,530	\$ 2,221,571
Water systems	1,303,194	1,399,528
Management and general	55,260	76,800
Engineering, operations, and maintenance	325,361	275,142
Vehicle fuel and maintenance	24,268	29,882
Depreciation	627,465	616,474
Total operating expenses	\$ 4,654,078	\$ 4,619,397
Net operating income (loss)	\$ 4,405,936	\$ 4,554,971
Nonoperating Revenues (Expenses):		
Interest income	\$ 204,260	\$ 166,681
Interest expense	(462,567)	(227,530)
Bond issuance costs	(135,125)	-
Gain (Loss) on disposal of assets	9,932	(152,556)
Total nonoperating revenues (expenses)	\$ (383,500)	\$ (213,405)
Change in net position	\$ 4,022,436	\$ 4,341,566
Net position, beginning of year, as restated	19,913,618	15,593,621
Net position, end of year	<u>\$ 23,936,054</u>	<u>\$ 19,935,187</u>

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

NRV Regional Water Authority
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Receipts from customers and users	\$ 9,291,897	\$ 8,782,248
Payments to suppliers	(1,604,159)	(1,858,595)
Payments to employees and retirees	(2,196,880)	(2,176,297)
Net cash provided by (used for) operating activities	\$ 5,490,858	\$ 4,747,356
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets	\$ (8,130,009)	\$ (4,039,517)
Principal payments on bonds	(155,000)	(150,000)
Proceeds from indebtedness	10,031,906	-
Interest expense	(398,881)	(243,714)
Bond issuance costs	(135,125)	-
Proceeds from sale of capital assets	9,932	3,161
Capital contributions received	23,763	23,296
Net cash provided by (used for) capital and related financing activities	\$ 1,246,586	\$ (4,406,774)
Cash flow from investing activities:		
Interest income	\$ 204,260	\$ 166,681
Net increase (decrease) in cash and cash equivalents	\$ 6,941,704	\$ 507,263
Cash and cash equivalents at beginning of year (including \$551,219 held in restricted accounts)	8,391,599	7,884,336
Cash and cash equivalents at end of year (including \$7,100,928 held in restricted accounts)	<u>\$ 15,333,303</u>	<u>\$ 8,391,599</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Net operating income (loss)	\$ 4,405,936	\$ 4,554,971
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	627,465	616,474
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in accounts receivable	197,991	(392,120)
(Increase) decrease in prepaid expenses	2,185	(65,158)
(Increase) decrease in inventory	-	11,000
(Increase) decrease in deferred outflows of resources	(333,768)	(271,911)
Increase (decrease) in accounts payable and accrued liabilities	101,739	(23,085)
Increase (decrease) in unearned revenue	33,892	-
Increase (decrease) in compensated absences	8,080	41,417
Increase (decrease) in net OPEB liabilities	208,932	433,176
Increase (decrease) in net pension liability	281,975	(231,468)
Increase (decrease) in deferred inflows of resources	(43,569)	74,060
Net cash provided by (used for) operating activities	\$ 5,490,858	\$ 4,747,356
Schedule of non-cash capital and related financing activities:		
Purchase of property, plant and equipment included in construction payables	\$ 2,350,638	\$ 299,269

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

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2020

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 policies:

A. Financial Reporting Entity

The NRV Regional Water Authority (the “Authority”) is the successor entity to the Blacksburg-Christiansburg-VPI Water Authority which was originally chartered in 1955 to operate and maintain a water supply system for the Towns of Blacksburg and Christiansburg and for Virginia Polytechnic Institute and State University. The County of Montgomery joined the Authority pursuant to a joinder agreement dated June 18, 2013, which called for the name of the Authority to be changed to NRV Regional Water Authority. The Authority is governed by a Board of Directors consisting of one representative appointed by each of the members. The Authority is a jointly governed organization of the four members listed herein. The participating members do have a financial interest in and responsibility to the Authority.

The Governmental Accounting Standards Board (GASB) has determined that, under certain circumstances, related organizations should be considered component units of a primary entity and, as such, reported as part of the primary entity. In so doing, GASB established criteria for determining whether a related entity should be reported as a component unit and, under different circumstances, how component units must be presented. In defining the Authority as a primary reporting entity, related organizations were evaluated for possible inclusion, using the criteria established by the GASB. The criteria would require the reporting entity to include entities that hold resources entirely or almost entirely for the direct benefit of the Authority where the Authority has the ability to access a majority of those resources and those resources are significant to the Authority. Based on these criteria, the Authority does not have any component units, nor is the Authority considered a component unit of any of the participating jurisdictions. Therefore, these financial statements are for the primary entity only.

B. Financial Statement Presentation

The Authority follows the business-type activities requirements of current financial statement guidance, which provides that the following sections be included in the annual financial report:

1. Management discussion and analysis (omitted in the current year)
2. Basic financial statements including a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows
3. Notes to the financial statements
4. Required supplementary information

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

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

C. Basis of Accounting

For financial reporting purposes, the NRV Regional Water Authority is considered a special-purpose government, engaged only in business-type activities. Accordingly, the Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

D. Proprietary Fund Revenue and Expense Classifications

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including gifts, and other revenue sources that are defined as nonoperating revenues, such as state appropriations and interest and other investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has multiple items that qualify for reporting in this category. One item is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

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

F. Net Position

The Statement of Net Position reports the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as net position.

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

F. Net Position (Continued)

The Authority's net position is classified as follows:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, and equipment less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset. 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 the component of net position.

Restricted- This category includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the Authority and may be used at the Authority's discretion to meet current expenses for any lawful purposes.

G. Net Position Flow Assumption

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

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), 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 capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

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

H. Capital Assets (Continued)

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

<u>Asset</u>	<u>Years</u>
Buildings and improvements	15-50
Plant facilities and transmission lines	20-50
Pumps, valves, and equipment	5-30
Trucks and other vehicles	5-7
Dewatering facilities and basins	15-50

I. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these amounts.

J. Compensated Absences

The Authority has policies to allow the accumulation and vesting of limited amounts of vacation, sick, compensatory, and paid time off leave until termination or retirement. Amounts of such absences are accrued when incurred. The Authority has adopted a retirement health savings plan for the benefit of its employees. Under this plan, employees retiring from service will be eligible to have 60% of unused sick leave contributed by the Authority to a retirement health savings account to be used for payment of qualified medical expenses. At June 30, 2020, the liability for compensated absences totaled \$355,298, as compared to \$347,218 as of June 30, 2019.

K. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Authority reports \$7,100,928 in restricted cash and cash equivalents which are short-term investments held with SNAP with an original maturity of three months or less. These restricted cash and cash equivalents result from unspent bond proceeds restricted for ongoing construction projects.

L. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments (external investment pools) are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

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

M. Accounts Receivable

Accounts receivable are stated at book value. Uncollected balances have not been significant and no allowance for uncollectible accounts is recorded.

N. Inventory

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

O. Prepaid Items

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

P. 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.

Q. Other Postemployment Benefits (OPEB)

Group Life Insurance

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

Health Insurance

In addition to the OPEB Group Life Insurance benefit, the Authority allows their retirees to stay on the health insurance plan after retirement. The retiree is required to pay the blended premium cost creating an implicit subsidy OPEB liability. In addition, retirees receive a monthly stipend towards their health insurance cost.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS:

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.

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 that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard and Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have an investment policy for custodial credit risk. As of June 30, 2020, the Authority did not hold any investments that were subject to custodial credit risk.

Concentration of Credit Risk

At June 30, 2020, the Authority did not have any investments meeting the definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

Credit Risk of Debt Securities

The Authority has not adopted an investment policy for credit risk. The Authority’s rated debt investments as of June 30, 2020 were rated by Standard and Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor’s rating scale.

Authority's Rated Debt Investments' Values	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
SNAP	\$ 7,100,928

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pools

The value of the positions in the external investment pools (State Non-Arbitrage Pool) is the same as the value of the pool shares. As SNAP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. SNAP is an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

Interest Rate Risk

The Authority has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

Investment Type	Investment Maturities (in years)	
	Fair Value	Less than 1 year
SNAP	\$ 7,100,928	\$ 7,100,928

NOTE 3 -RECEIVABLES AND REVENUES:

CAPITAL CONTRIBUTION RECEIVABLE:

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

The annual principal and related interest requirements are as follows:

Year Ending June 30,	Capital Contribution	
	Principal	Interest
2021	\$ 24,723	\$ 22,799
2022	25,217	22,305
2023	25,721	21,801
2024	26,236	21,286
2025	26,760	20,762
2026-2030	142,048	95,562
2031-2035	156,832	80,778
2036-2040	173,156	64,454
2041-2045	191,178	46,432
2046-2050	211,076	26,534
2051-2053	137,990	5,517
Totals	\$ 1,140,937	428,230

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 3 -RECEIVABLES AND REVENUES: (CONTINUED)

OPERATING RECEIVABLES AND REVENUES:

Accounts receivable and water sales were as follows:

	Accounts	
	Receivable	Revenues
Town of Blacksburg	\$ 833,286	\$ 3,597,555
Town of Christiansburg	710,962	3,083,247
Virginia Tech	287,911	1,568,576
County of Montgomery	187,752	804,962
Total	\$ 2,019,911	\$ 9,054,340

NOTE 4 - CAPITAL ASSETS:

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

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 640,171	\$ -	\$ -	\$ 640,171
Construction in progress	3,367,699	10,024,565	-	13,392,264
Total capital assets, not being depreciated	\$ 4,007,870	\$ 10,024,565	\$ -	\$ 14,032,435
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,376,347	\$ -	\$ -	\$ 1,376,347
Plant facilities and transmission lines	14,249,468	46,891	-	14,296,359
Dewatering facilities and basins	898,913	-	-	898,913
Pumps, valves, and equipment	6,909,463	109,922	(20,902)	6,998,483
Trucks and other vehicles	241,606	-	(27,298)	214,308
Total capital assets being depreciated	\$ 23,675,797	\$ 156,813	\$ (48,200)	\$ 23,784,410
Accumulated depreciation:				
Buildings and improvements	\$ (134,095)	\$ (72,158)	\$ -	\$ (206,253)
Plant facilities and transmission lines	(7,461,819)	(401,312)	-	(7,863,131)
Dewatering facilities and basins	(293,353)	(17,696)	-	(311,049)
Pumps, valves, and equipment	(1,308,653)	(126,580)	20,902	(1,414,331)
Trucks and other vehicles	(192,441)	(9,719)	27,298	(174,862)
Total accumulated depreciation	\$ (9,390,361)	\$ (627,465)	\$ 48,200	\$ (9,969,626)
Capital assets, being depreciated, net	\$ 14,285,436	\$ (470,652)	\$ -	\$ 13,814,784
Capital assets, net	\$ 18,293,306	\$ 9,553,913	\$ -	\$ 27,847,219

The capital asset additions above include construction payables of \$2,319,751 and equipment purchase payable of \$30,887.

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 5 - LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2020</u>
Direct Borrowings:				
Revenue Bonds	\$ 5,345,000	\$ 8,995,000	\$ (155,000)	\$ 14,185,000
Bond Premiums	213,985	1,036,906	(32,738)	1,218,153
Compensated absences	347,218	94,885	(86,805)	355,298
Net pension liability	2,637,022	791,767	(509,792)	2,918,997
Net OPEB liabilities	1,896,396	291,617	(82,685)	2,105,328
Total	<u>\$ 10,439,621</u>	<u>\$ 11,210,175</u>	<u>\$ (867,020)</u>	<u>\$ 20,782,776</u>

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

Year Ending June 30,	<u>Direct Borrowings</u>	
	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 305,000	\$ 589,097
2022	320,000	573,406
2023	340,000	556,744
2024	355,000	539,509
2025	370,000	521,856
2026-2030	2,165,000	2,306,885
2031-2035	2,705,000	1,758,275
2036-2040	2,600,000	1,226,238
2041-2045	2,725,000	706,328
2046-2050	2,300,000	227,063
Totals	<u>\$ 14,185,000</u>	<u>9,005,401</u>

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NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding</u>	<u>Amount Due Within One Year</u>
Direct Borrowings:						
Revenue Bonds:						
VBFP Series 2013B	3.8-5.1%	6/27/2013	2044	\$ 3,745,000	\$ 3,335,000	\$ 80,000
VBFP Series 2014B	4.1-4.8%	8/13/2014	2036	2,170,000	1,855,000	80,000
VBFP Series 2019C	3.8-5.1%	10/30/2019	2050	8,995,000	8,995,000	145,000
Total Revenue Bonds					\$ 14,185,000	\$ 305,000
Bond Premiums					\$ 1,218,153	\$ 82,498
Total Direct Borrowings					\$ 15,403,153	\$ 387,498
Other Obligations:						
Compensated absences					\$ 355,298	\$ 88,825
Net pension liability					2,918,997	-
Net OPEB liabilities					2,105,328	-
Total Other Obligations					\$ 5,379,623	\$ 88,825
Total Long-Term Obligations					\$ 20,782,776	\$ 476,323

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

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

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

NOTE 6 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by a VRS Retirement Plan upon employment. 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. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

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

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

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 6 - PENSION PLAN: (CONTINUED)

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

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

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

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	14
Inactive members:	
Vested inactive members	-
Non-vested inactive members	1
Long-term disability (LTD)	-
Inactive members active elsewhere in VRS	-
Total inactive members	<u>1</u>
Active members	<u>19</u>
Total covered employees	<u><u>34</u></u>

**NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020**

NOTE 6 - PENSION PLAN: (CONTINUED)

Contributions

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

The Authority's contractually required employer contribution rate for the year ended June 30, 2020 was 18.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$240,441 and \$235,672 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Authority, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

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, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020**

NOTE 6 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 6 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.63%</u>

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Authority was also provided with an opportunity to use an alternative employer contribution rate.

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 6 - PENSION PLAN: (CONTINUED)

Discount Rate: (Continued)

For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2019, on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2018	\$ 5,918,234	\$ 3,281,212	\$ 2,637,022
Changes for the year:			
Service cost	\$ 87,341	\$ -	\$ 87,341
Interest	400,798	-	400,798
Differences between expected and actual experience	117,436	-	117,436
Assumption changes	183,901	-	183,901
Contributions - employer	-	232,398	(232,398)
Contributions - employee	-	62,820	(62,820)
Net investment income	-	214,574	(214,574)
Benefit payments, including refunds	(385,092)	(385,092)	-
Administrative expenses	-	(2,155)	2,155
Other changes	-	(136)	136
Net changes	\$ 404,384	\$ 122,409	\$ 281,975
Balances at June 30, 2019	\$ 6,322,618	\$ 3,403,621	\$ 2,918,997

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 6 - PENSION PLAN: (CONTINUED)

Sensitivity 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>Rate</u>		
	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
	<u>(5.75%)</u>	<u>(6.75%)</u>	<u>(7.75%)</u>
Authority's			
Net Pension Liability (Asset)	\$ 3,770,699	\$ 2,918,997	\$ 2,249,708

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

For the year ended June 30, 2020, the Authority recognized pension expense of \$286,333. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	<u>of Resources</u>	<u>of Resources</u>
Differences between expected and actual experience	\$ 177,099	\$ 94,066
Change in assumptions	153,704	51,251
Net difference between projected and actual earnings on pension plan investments	-	24,473
Employer contributions subsequent to the measurement date	<u>240,441</u>	<u>-</u>
Total	<u>\$ 571,244</u>	<u>\$ 169,790</u>

**NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020**

NOTE 6 - PENSION PLAN: (CONTINUED)

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

\$240,441 reported as deferred outflows of resources related to pensions resulting from the Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2021. 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>		
2021	\$	66,266
2022		(3,312)
2023		16,308
2024		28,516
2025		48,778
Thereafter		4,457

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2019-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTHCARE PLAN:

Plan Description and Benefits Provided

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

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

Funding Policy and Contributions

The Authority currently funds postemployment benefits for healthcare on a pay-as-you-go basis. The Authority does not intend to establish a trust to pre-fund this liability. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2020 was \$54,765.

**NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020**

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTHCARE PLAN: (CONTINUED)

Plan Membership

At January 1, 2019 (actuarial date), the following employees were covered by the benefit terms:

Active plan members	20
Retired plan members	10
	<hr/>
Total	30
	<hr/> <hr/>

Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation as of January 1, 2019, rolled forward to the measurement date of June 30, 2020.

Actuarial Assumptions

The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Mortality rates for active employees, healthy retirees, and disabled retirees was from the VRS Non-LEOPS valuation. The discount rate was 2.45% as described in the next section below. The healthcare trend rate starts at 6.75% and declines to an ultimate rate of 4.25%

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 11-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 2.45% as of the end of the fiscal year with the expectation that the Authority will continue paying the cost from operating funds.

Changes in Total OPEB Liability

		<u>Total OPEB Liability</u>
Balances at June 30, 2019	\$	1,802,396
Changes for the year:		
Service cost		22,338
Interest		56,264
Changes in assumptions		172,183
Benefit payments		(54,765)
Net changes		<hr/> 196,020
Balances at June 30, 2020	\$	<hr/> <hr/> 1,998,416

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTHCARE PLAN: (CONTINUED)

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.45%) or one percentage point higher (3.45%) than the current discount rate:

Rate		
1% Decrease (1.45%)	Current Discount Rate (2.45%)	1% Increase (3.45%)
\$ 2,280,183	\$ 1,998,416	\$ 1,768,908

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

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

Rates		
1% Decrease (Ultimate rate of 3.25%)	Healthcare Cost Trend (Ultimate rate of 4.25%)	1% Increase (Ultimate rate of 5.25%)
\$ 1,758,842	\$ 1,998,416	\$ 2,295,033

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2020, the Authority recognized OPEB expense in the amount of \$121,387. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 246,310	\$ -
Change in actuarial assumptions	254,391	7,644
Total	\$ 500,701	\$ 7,644

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS - HEALTHCARE PLAN: (CONTINUED)

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

<u>Year ended June 30</u>	
2021	\$ 42,785
2022	42,785
2023	42,785
2024	42,785
Thereafter	321,917

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN):

Plan Description

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

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

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

Eligible Employees

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Plan from the entity were \$6,978 and \$6,700 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the entity reported a liability of \$106,912 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was 0.00657% as compared to 0.00616% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$5,174. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB: (Continued)

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,110	\$ 1,386
Net difference between projected and actual earnings on GLI OPEB plan investments	-	2,196
Change in assumptions	6,750	3,224
Changes in proportion	12,798	-
Employer contributions subsequent to the measurement date	<u>6,978</u>	<u>-</u>
Total	<u>\$ 33,636</u>	<u>\$ 6,806</u>

\$6,978 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2021	\$ 3,082
2022	3,082
2023	4,012
2024	4,861
2025	3,861
Thereafter	954

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of OPEB liabilities.

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020**

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees: (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

	GLI OPEB Plan
	<hr/>
Total GLI OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	1,762,972
GLI Net OPEB Liability (Asset)	<hr/> <u>\$ 1,627,266</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%

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

NRV REGIONAL WATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2020

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.63%

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

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

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
NRV Water Authority's proportionate share of the GLI Plan Net OPEB Liability	\$ 140,452	\$ 106,912	\$ 79,711

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 9 - OPEB SUMMARY INFORMATION:

	Authority			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
VRS OPEB Plans:				
GLI Program	\$ 33,636	\$ 6,806	\$ 106,912	\$ 5,174
Standalone Local Healthcare OPEB Plan	500,701	7,644	1,998,416	121,387
Totals	<u>\$ 534,337</u>	<u>\$ 14,450</u>	<u>\$ 2,105,328</u>	<u>\$ 126,561</u>

NOTE 10 - DEFERRED COMPENSATION PLAN:

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in a trust by a third-party for the exclusive benefit of participants and their beneficiaries. For 2020, the Authority's matching contributions totaled \$8,714.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 11 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other localities in a public entity risk pool for its coverage of general liability, property, equipment, crime and auto insurance with the Virginia Municipal League (VML) Insurance Programs. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays the Risk Pool 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 the loss, deficit or depletion of all available funds, 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. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 12 - LITIGATION:

As of June 30, 2020, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

At June 30, 2020, the Authority had the below outstanding construction commitment:

Project	Amount of Contract	Amount of Contract Outstanding	Accounts Payable	Retainage Payable
Plum Creek - Contract 1	\$ 2,547,500	\$ -	\$ 116,663	\$ 68,906
Plum Creek - Contract 2	4,303,455	1,786,358	808,684	125,855
Plum Creek - Contract 3	2,382,447	1,091,660	595,018	64,539
Phase 1	2,354,411	235,081	323,543	105,967
Modernization - Engineering	6,278,000	3,685,758	-	12,702
Plum Creek - Engineering	1,557,416	74,792	-	97,874
Total	\$ 19,423,229	\$ 6,873,649	\$ 1,843,908	\$ 475,843

NOTE 14- ADOPTION OF ACCOUNTING PRINCIPLES:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2020. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

The Authority early implemented provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* during the fiscal year ended June 30, 2020. This Statement simplifies accounting for interest cost incurred before the end of a construction period. Interest cost incurred during construction is expensed and no longer capitalized as part of project costs. No restatement was required as a result of this implementation.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 15- RESTATEMENT OF NET POSITION:

Net position as previously stated June 30, 2019	\$	19,935,187
Net correction to capital assets		(21,569)
Net position as restated July 1, 2019	\$	<u>19,913,618</u>

NOTE 16 - SUBSEQUENT EVENTS:

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the “COVID-19 outbreak”). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The COVID-19 pandemic has developed rapidly in 2020 and remains a quickly evolving situation. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact economic activity. The Authority is not able to estimate the effects of the COVID-19 pandemic for fiscal year 2021.

On October 7, 2020, the Authority closed on a revenue bond in the amount of \$36,928,000 with an interest rate of 2.50%. The Authority will utilize cash reserves of \$9,890,000 to complete a construction project with expected costs of \$46,818,000 (total of the loan and cash reserves). The revenue bond also included a debt service reserve requirement of \$878,514 (50% of annual debt service) immediately and a full year’s reserve of \$1,757,029 by October 7, 2025.

NOTE 17 - UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government’s majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

NRV REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2020

NOTE 17 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement. No 32*, (1) increases consistency and comparability related to reporting of fiduciary component units in certain circumstances; (2) mitigates costs associated with the reporting of certain plans as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans. The effective dates differ based on the requirements of the Statement, ranging from June 2020 to reporting periods beginning after June 15, 2021.

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

Required Supplementary Information

NRV Regional Water Authority
 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
 Pension Plan
 For the Measurement Dates of June 30, 2014 through June 30, 2019

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 87,341	\$ 72,861	\$ 74,071	\$ 62,085	\$ 66,261	\$ 49,647
Interest	400,798	404,209	403,790	380,080	377,314	374,917
Difference between expected and actual experience	117,436	(140,748)	19,755	278,627	39,178	-
Changes in assumptions	183,901	-	(109,937)	-	-	-
Benefit payments	(385,092)	(385,011)	(378,356)	(385,812)	(500,665)	(279,985)
Net change in pension liability	\$ 404,384	\$ (48,689)	\$ 9,323	\$ 334,980	\$ (17,912)	\$ 144,579
Total pension liability - beginning	5,918,234	5,966,923	5,957,600	5,622,620	5,640,532	5,495,953
Total pension liability - ending (a)	\$ 6,322,618	\$ 5,918,234	\$ 5,966,923	\$ 5,957,600	\$ 5,622,620	\$ 5,640,532
Plan Fiduciary Net Position						
Contributions - employer	\$ 232,398	\$ 285,938	\$ 242,825	\$ 232,647	\$ 220,438	\$ 143,505
Contributions - employee	62,820	57,338	48,839	46,797	44,669	43,329
Net investment income	214,574	226,659	340,147	47,822	136,169	415,535
Benefit payments	(385,092)	(385,011)	(378,356)	(385,812)	(500,665)	(279,985)
Administrator charges	(2,155)	(1,941)	(2,001)	(1,824)	(2,052)	(2,295)
Other	(136)	(204)	(303)	(21)	(29)	22
Net change in plan fiduciary net position	\$ 122,409	\$ 182,779	\$ 251,151	\$ (60,391)	\$ (101,470)	\$ 320,111
Plan Fiduciary Net Position - beginning	3,281,212	3,098,433	2,847,282	2,907,673	3,009,143	2,689,032
Plan Fiduciary Net Position - ending (b)	\$ 3,403,621	\$ 3,281,212	\$ 3,098,433	\$ 2,847,282	\$ 2,907,673	\$ 3,009,143
Authority's net pension liability (asset) - ending (a) - (b)	\$ 2,918,997	\$ 2,637,022	\$ 2,868,490	\$ 3,110,318	\$ 2,714,947	\$ 2,631,389
Plan fiduciary net position as a percentage of the total pension liability	53.83%	55.44%	51.93%	47.79%	51.71%	53.35%
Covered payroll	\$ 1,330,467	\$ 1,170,775	\$ 985,817	\$ 949,183	\$ 904,029	\$ 914,061
Authority's net pension liability (asset) as a percentage of covered payroll	219.40%	225.24%	290.98%	327.68%	300.32%	287.88%

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.

NRV Regional Water Authority
Schedule of Employer Contributions
Pension Plan
For the Years Ended June 30, 2015 through June 30, 2020

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) - (2) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (2)/(4) (5)
2020	\$ 240,441	\$ 240,441	\$ -	\$ 1,342,024	17.92%
2019	235,672	235,672	-	1,330,467	17.71%
2018	285,398	285,398	-	1,170,775	24.38%
2017	242,825	242,825	-	985,817	24.63%
2016	233,309	233,309	-	949,183	24.58%
2015	222,211	222,211	-	904,029	24.58%

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

NRV Regional Water Authority
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2020

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NRV Regional Water Authority
Schedule of Changes in Total OPEB Liability and Related Ratios
Health Insurance

For the Measurement Dates of June 30, 2018 through June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 22,338	\$ 18,288	\$ 14,187
Interest	56,264	59,755	48,604
Differences between expected and actual experience	-	291,094	-
Changes in assumptions	172,183	112,807	(12,231)
Benefit payments	(54,765)	(59,768)	(42,483)
Net change in total OPEB liability	\$ 196,020	\$ 422,176	\$ 8,077
Total OPEB liability - beginning	1,802,396	1,380,220	1,372,143
Total OPEB liability - ending	\$ <u>1,998,416</u>	\$ <u>1,802,396</u>	\$ <u>1,380,220</u>
Covered payroll	\$ 1,385,470	\$ 1,478,456	\$ 1,196,905
Authority's total OPEB liability (asset) as a percentage of covered payroll	144.24%	121.91%	115.32%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

NRV Regional Water Authority
Notes to Required Supplementary Information
Health Insurance
For the Year Ended June 30, 2020

Valuation Date: 1/1/2019
 Measurement Date: 6/30/2020

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	2.45% as of June 30, 2020
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.75% and gradually declines to 4.25%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the VRS Non-LEOPS valuation

NRV Regional Water Authority
Schedule of Authority's Share of Net OPEB Liability
Group Life Insurance (GLI) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2019

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2019	0.00657%	\$ 106,912	\$ 1,330,467	8.04%	52.00%
2018	0.00616%	94,000	1,170,775	8.03%	51.22%
2017	0.00550%	83,000	1,013,881	8.19%	48.86%

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

NRV Regional Water Authority
Schedule of Employer Contributions
Group Life Insurance (GLI) Plan
For the Years Ended June 30, 2015 through June 30, 2020

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) - (2) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (2)/(4) (5)
2020	\$ 6,978	\$ 6,978	\$ -	\$ 1,342,024	0.52%
2019	6,700	6,700	-	1,330,467	0.50%
2018	6,088	6,088	-	1,170,775	0.52%
2017	5,272	5,272	-	1,013,881	0.52%
2016	4,603	4,603	-	959,011	0.48%
2015	4,309	4,309	-	897,694	0.48%

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

NRV Regional Water Authority
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2020

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

Other Statistical Information

Table 1

NRV Regional Water Authority
Schedule of Debt Coverage
For the Years Ended June 30, 2014 through June 30, 2020

Fiscal Year	Gross Revenues	Less Operating Expenses*	Net Revenues Available for Debt Service	Debt Service		Coverage
				Principal	Interest	
2020	\$ 9,264,274	\$ 4,026,613	\$ 5,237,661	\$ 155,000	\$ 398,881	945.63%
2019	9,341,049	4,002,923	5,338,126	150,000	243,714	1355.84%
2018	7,583,040	3,587,537	3,995,503	140,000	250,475	1023.24%
2017	5,684,611	3,414,717	2,269,894	130,000	256,737	586.93%
2016	5,328,341	3,407,115	1,921,226	135,000	262,332	483.53%
2015	5,109,760	3,369,393	1,740,367	150,000	291,840	393.89%
2014	4,434,365	3,342,820	1,091,545	65,000	227,838	372.75%

*excluding depreciation

Note 1: The revenue covenant is 100% of all debt service.

Note 2: The Authority issued debt in fiscal year 2014. Therefore, only seven years of data are presented. Ten years of data will be presented when available.

Source: Unless otherwise noted, the information in this Table is derived from the financial reports for the relevant year.

COMPLIANCE SECTION



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

**To the Board of Directors
NRV Regional Water Authority
Radford, 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 NRV Regional Water Authority as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise NRV Regional Water Authority's basic financial statements and have issued our report thereon dated October 12, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NRV Regional Water Authority's internal control over financial reporting (internal control) as a basis for designing 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 NRV Regional Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of NRV Regional Water 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 NRV Regional Water 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 financial statements. 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 black ink that reads "Robinson, James, Cox Associates". The signature is written in a cursive, flowing style.

Blacksburg, Virginia
October 12, 2020