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PITTSYLVANIA COUNTY SERVICE AUTHORITY BOARD OF COMMISSIONERS REGULAR MEETING

Tuesday, April 21, 2020; 3:30 p.m.

Chatham Community Center
115 South Main Street, Chatham, Virginia 24531

AGENDA

1. Call to Order (3:30 p.m.)
2. Roll Call
3. Revisions/Additions to Agenda
4. Approval of Agenda
5. Approval of Minutes (March 10, 2020, Regular Meeting)
6. Hearing of the Citizens
7. New Business
 - A. Resolution # 2020-04-01 Adoption (*David M. Smitherman*)
 - B. 2019 Financial Audit Presentation (*Stephen M. Gay, CPA, Harris; Harvey, Neal & Co.*)
 - C. PCSA Operations Overview (*Christopher D. Adcock*)
8. Matters from Commissioners
9. Adjournment

Commissioners:

Robert "Bob" Warren • Ronald Searce • William "Vic" Ingram
Joe Davis • Tim W. Dudley • Dr. Charles Miller • Ben Farmer



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Minutes of the Regular Monthly Meeting of the PCSA Board of Commissioners

March 10, 2020

1. CALL TO ORDER

The regular monthly meeting of the Pittsylvania County Service Authority Board of Commissioners was held on March 10, 2020 at the PCSA Office, 405 R & L Smith Drive in Danville, Virginia and called to order at 5:30 P.M. by Elton Blackstock, Chairman, with the following in attendance:

Commissioners Present:

Elton Blackstock, Chairman	Hershel Stone
Willie Fitzgerald, Treasurer	Joseph Rogers
Bobby G. Atkinson, Vice-Chairman	Hugh T. Mitchell, Jr.
Tim Barber	

Others Present:

Chris Adcock, Executive Director	Sharon Cassada, Finance Director
Jennifer Burnett, Legal Counsel	

2. APPROVAL OF AGENDA

Mr. Adcock requested to add the following to the agenda: 7.B.) "Banking Services", 6.C.) "Additional Sewer Flow Testing - Hwy. 41 Area", 5.B.) "Accounting Methods". Mr. Mitchell requested to add the following to the agenda: 6.D.) "Rate Study", 7.C.) "Westridge Farms Sewer Petition. Mr. Atkinson moved to approve the revised agenda. The motion was seconded by Mr. Fitzgerald, there was no further discussion and the motion passed unanimously.

3. APPROVAL OF PRIOR MEETING MINUTES

Mr. Atkinson moved to approve the minutes of the February 11, 2020 regular Board meeting as presented. The motion was seconded by Mr. Stone, there was no further discussion and the motion passed unanimously.

4. PUBLIC COMMENT PERIOD

No one was present desiring to speak before the Board.

Commissioners:

Bobby G. Atkinson • Willie T. Fitzgerald • Hershel M. Stone
Elton W. Blackstock • Tim R. Barber • Joseph H. Rogers • Hugh T. Mitchell, Jr.

5. BILLS DUE AND PAID / FINANCIAL STATEMENT

- A. Approval of Certificate of Deposit Purchase - Umpqua Bank Roseburg - OR (FDIC # 17266) in the amount of \$250,000.00 with a 1.65% yield, and a date of maturity of 8/21/2020

Mr. Fitzgerald moved to approve the purchase of the CD. The motion was seconded by Mr. Atkinson, there was no further discussion, and the motion passed unanimously.

- B. Accounting Methods

Mr. Adcock introduced Stephen Gay, a CPA with Harris, Harvey, Neal & Co. (HHN.) HHN is the accounting firm who prepares the Authority's annual financial audit. Mr. Gay explained "cash-basis" versus the "accrual" method of accounting. The Authority currently uses the "cash-basis" method which requires HHN to convert it to accrual for audit preparation. Mr. Mitchell moved to have staff begin using the accrual method of accounting, to apply retroactively to January 1, 2020, so that the entire fiscal year is reported in that method. The motion was seconded by Mr. Atkinson. Mr. Stone asked if the staff was comfortable making that change. Ms. Cassada stated she felt comfortable making the change and Mr. Gay stated with the new accounting software being implemented, it should be easier. With no further questions or discussion, the motion passed unanimously.

Regarding bills due and paid, Mr. Adcock noted that two City of Danville water and wastewater bills were paid in February which is why expenses were much higher than normal. He also noted that the wastewater bills were higher due to the extreme rainfall during the month and the resulting inflow and infiltration. Mr. Atkinson moved to pay the bills due. The motion was seconded by Mr. Mitchell, there was no further discussion and the motion passed unanimously.

6. UNFINISHED BUSINESS

- A. 58 West Interconnection Project

Mr. Adcock reported that he was still waiting on the County's acknowledgment of the Virginia Resources Authority (VRA) financing terms as requested by the VRA. In addition, PCSA still needs approval of a moral obligation from the County in order to obtain the financing. No action was taken on this item.

- B. Horseshoe Road Water Extension Request

Mr. Barber reported the he met with Supervisor Scarce and County Administrator Smitherman regarding how to possibly fund the requested water extension. There was no action taken on this item.

- C. Additional Sewer Flow Testing - Hwy. 41 Area

Mr. Adcock explained that additional sewer flow testing was recently completed as a second phase of the studies we have done in the past to try to determine the source of inflow and infiltration (I&I) that occurs during heavy rainfall events. There were some areas of interest noted in the Laurel Woods area and in the line that serves some of Bridgewood subdivision. A proposal was received from Hurt & Proffitt to do smoke testing and camera inspection of the lines that had the notable flow spikes but Mr. Adcock wanted to get additional proposals since he felt the prices were high in comparison to past contracts for similar work. Mr. Adcock wanted to update the Board on the ongoing efforts to find the sources of I&I in the Franklin Turnpike sewer area since it has been a priority for some members, but it has been very difficult to find any significant causes. There was no action taken on this item.

D. Rate Study

Mr. Adcock met with Hurt & Proffitt a few weeks ago in order to discuss the rate analysis they were preparing. He asked them to complete some additional analysis on the data they had prepared and, once completed, Mr. Adcock would convene the rate study committee for a presentation and discussion.

7. **NEW BUSINESS**

A. Executive Session - The Board did not enter executive session.

B. Banking Services

Mr. Adcock discussed the current banking services of the Authority and suggested it may be a good idea to prepare a Request for Proposals (RFP) for banking services in order to see what other area banks may be able to offer that could be beneficial to the Authority. Mr. Mitchell moved to have staff prepare and issue an RFP for banking services for the Authority.

Mr. Fitzgerald seconded the motion, there was no further discussion, and the motion passed on a vote of 6 yeas, 0 nays and 1 abstention. Mr. Blackstock abstained from the vote due to a possible conflict of interest since he currently serves on the board of a local bank.

C. Westridge Farms Sewer Petition

Mr. Adcock discussed a petition he received from citizens of Westridge Farms subdivision desiring public sewer service. Mr. Mitchell explained that he was forwarded the request from Supervisor Scarce and he met with a neighborhood representative and recommended a petition be obtained from those desiring service. Mr. Adcock created a basic design of a system that could possibly serve those residents desiring service and used that to create a preliminary cost estimate. The estimate, including survey, design and construction, was over \$1 million to serve 24 homes and would require a new pump station. Without grants or some other source of funding, he did not think it was a feasible project. The Board directed Mr. Adcock to send a written response to the petition spokesperson with a copy to Supervisor Scarce.

8. **DIRECTOR'S REPORT**

Mr. Adcock reported that \$145,276.36 was received from the Virginia Department of Emergency Management on March 5, 2020 as partial FEMA reimbursement from Tropical Storm Michael damages. One larger project required additional review by the state and reimbursement for that would be received at a later date. He also reported our water loss for the last billing period was around 11.5% for our four largest systems with Mt. Hermon being the lowest at 4.2% and 58 West being the highest at 17%. The Environmental Protection Agency (EPA) reports the average loss across the U.S. is 16% which includes leaks, fire-hydrant usage and theft.

9. **COMMUNICATION FROM COMMISSIONERS**

Mr. Atkinson asked for the Board to consider a water extension from Ringgold to the Kentuck community. He counted 224 potential residential customers in approximately 7 miles and also stated Dan River High, Dan River Middle and Kentuck Elementary could be potential customers.

Mr. Rogers reported that the Town of Chatham has expanded their contract with Inframark to include public works duties including water and sewer infrastructure maintenance. They currently

operate the Town's water and wastewater plants. He suggested PCSA have discussions with them prior to implementing any rate adjustments to make sure we include their future plans and possible rate increases from the Town's side. He also sees this as an opportunity to get master meters for both water and wastewater flows that may help simplify the yearly, convoluted account settlement between the Town and PCSA.

Mr. Barber had no comments.

Mr. Stone had no comments.

Mr. Mitchell thanked the staff for their work on making adjustments to how the monthly financial reports were presented to the Board, which he felt were improvements, and he volunteered to help staff with any accounting concerns.

Mr. Fitzgerald had no comments.

Mr. Blackstock stated the Fire Protection Service Charge paid by the County to PCSA may not be included in the County's proposed budget for FY '20/'21 and suggested each Commissioner contact their Supervisor and ask them to please consider leaving that in the budget so it wouldn't adversely affect the PCSA budget.

10. ADJOURNMENT

Being no further business, the meeting adjourned at 7:07 P.M.

APPROVED:

ATTEST:

Elton W. Blackstock, Chairman

Christopher D. Adcock, Executive Director

PITTSYLVANIA COUNTY SERVICE AUTHORITY

RESOLUTION # 2020-04-01

WHEREAS, on March 17, 2020, as authorized by both the Pittsylvania County Code and the Code of Virginia, the Pittsylvania County Board of Supervisors (“Board”) appointed seven (7) new Commissioners to the Pittsylvania County Service Authority (“PCSA”); and

WHEREAS, said PCSA Commissioners recognize the need for several administrative changes to ensure that PCSA operates in the future in the most professional and efficient manner it can for the benefit of County citizens, its customers, and its employees.

NOW THEREFORE, BE IT RESOLVED, that the PCSA shall:

1. Temporarily suspend the current PCSA Bylaws, until its Reorganizational Meeting on July 21, 2020;
2. Henceforth, move its Regular Monthly Meetings to the third (3rd) Tuesday of each month at 3:30 p.m., in the same location as the Pittsylvania County Board of Supervisors’ (“Board”) Meetings;
3. Appoint Robert (“Bob”) W. Warren (“Warren”) as PCSA Chairman, until at least the next PCSA Reorganizational Meeting;
4. Appoint Ronald S. Scarce as PCSA Vice-Chairman, until at least the next PCSA Reorganizational Meeting,
5. Appoint, per Virginia Code § 15.2-5113(E), David M. Smitherman (“Smitherman”) as PCSA Chief Administrative Officer;
6. Give formal notice to terminate the current PCSA Legal Counsel’s Services Agreement;
7. Appoint J. Vaden Hunt, Esq., as PCSA Legal Counsel;
8. Appoint Kimberley G. Van Der Hyde as Treasurer;
9. Appoint Christopher D. Adcock as PCSA Secretary;
10. Endeavor, after July 1, 2020, for all PCSA employees to fully participate in the County’s Personnel Plan;
11. Require all PCSA employees to adhere to the County’s Purchasing policies and procedures;

12. Competitively bid out its banking services;
13. Move its Fiscal Year from a calendar year Fiscal Year to a July 1 to July 1 Fiscal Year;
and
14. Authorize Warren and Smitherman as official signatories for all PCSA financial matters and instruments.

Given under my hand this 21st day of April, 2020.

Robert (“Bob”) W. Warren, Chairman
Pittsylvania County Service Authority

ATTEST:

David M. Smitherman, Chief Administrative Officer
Pittsylvania County Service Authority

**PITTSYLVANIA COUNTY
SERVICE AUTHORITY
(A Component Unit of Pittsylvania County, Virginia)**

FINANCIAL REPORT

DECEMBER 31, 2019

OFFICERS

ELTON W. BLACKSTOCK - CHAIRMAN
BOBBY G. ATKINSON – VICE CHAIRMAN
WILLIE T. FITZGERALD - TREASURER

COMMISSIONERS

TIM R. BARBER
HUGH T. MITCHELL
JOSEPH H. ROGERS
HERSHEL M. STONE

MANAGEMENT

CHRIS ADCOCK - EXECUTIVE DIRECTOR
SHARON K. CASSADA – FINANCE DIRECTOR

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	6-35
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in Net Pension Liability and Related Ratios	36
Schedule of Employer Contributions	37
Notes to Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions	38
Schedule of Employer's Share of Net OPEB Liability-Group Life Insurance Program and Schedule of Employer Contributions	39
Notes to Schedule of Employer's Share of Net OPEB Liability and Schedule of Employer Contributions – Group Life Insurance Program	40
SUPPLEMENTAL INFORMATION	
Water pumping and general and administrative expense schedules	41
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	42-43

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Pittsylvania County Service Authority
Danville, Virginia

We have audited the accompanying financial statements of the business-type activities of Pittsylvania County Service Authority, a component unit of Pittsylvania County, Virginia, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pittsylvania County Service Authority, as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis Section 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 the missing information. Other required supplementary information related to the pension and group life insurance are also not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the business-type activities that comprise the Pittsylvania County Service Authority's basic financial statements. The schedule of Water Pumping and General and Administrative Expense Schedules, is presented for purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2019 on our consideration of Pittsylvania County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely 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 Pittsylvania County Service Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pittsylvania County Service Authority's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
April 17, 2020

PITTSYLVANIA COUNTY SERVICE AUTHORITY
STATEMENT OF NET POSITION
December 31, 2019
See Independent Auditors' Report

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 886,067
Investments	2,268,283
Accounts receivable - trade	385,849
Accounts receivable - assistance funds	346,124
Capital lease receivable - current portion	20,889
Inventory	39,768
Prepaid expenses	55,701
Total current assets	4,002,681
Other Assets:	
Investments - non-current	260,592
Capital lease receivable non-current portion	137,243
Total other assets	397,835
Capital Assets:	
Total capital assets - Utility plant net of accumulated depreciation	35,201,607
Deferred Outflows of Resources:	
Pension and group life insurance contributions and measurement of liability	72,477
Total non-current assets	35,671,919
Total assets	\$ 39,674,600
LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts payable	\$ 143,351
Accounts payable - Pittsylvania County	23,000
Wage accrual and payroll related liabilities	6,846
Unearned connection fees	62,314
Customer advances	202,537
Total current liabilities	438,048
Other Liabilities:	
Net pension liability	143,369
Net group life insurance liability	26,000
Total other liabilities	169,369
Deferred Inflows of Resources:	
Items related to measurement of pension and group life liability	183,934
Net Position:	
Investment in capital assets	35,201,607
Restricted cash	
VRS net position	(331,160)
Unrestricted	4,012,802
Total net position	38,883,249
Total liabilities and net position	\$ 39,674,600

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

PITTSYLVANIA COUNTY SERVICE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019
See Independent Auditors' Report

Operating Revenues:	
Water service	\$ 1,749,518
Sewer service	892,228
Hydrant rental	78,800
Water connection charges	18,890
Sewer connection charges	6,175
Line extension income	2,000
Penalties	39,001
Account charges	5,362
Reconnection charges	23,577
Sale of materials and supplies	900
Total operating revenues	2,816,451
Operating Expenses:	
Source of supply:	
Purchased water	804,016
Water pumping expenses (See Schedule 1)	188,566
Water distribution:	
Maintenance of mains and accessories	122,149
Water samples testing	24,589
Sewage treatment:	
Contracted sewage treatment	670,643
Maintenance	322,907
Engineering	178,223
Depreciation expense	804,785
General and administrative (See Schedule 1)	789,032
Total operating expenses	3,904,910
Net operating (loss)	(1,088,459)
Non Operating Revenues (Expenses):	
Interest earned on bank deposits and investments	83,809
Assistance funds income	376,124
Gain on investments	8,813
Pension and group life insurance gain	64,536
Net non operating revenues	533,282
(Loss) before capital contributions	(555,177)
Contributed capital/contributions in aid of construction	3,304,529
Increase in net position	2,749,352
Net position at beginning of year	36,133,897
Net position at end of year	\$ 38,883,249

The accompanying notes are an integral part of this statement.

PITTSYLVANIA COUNTY SERVICE AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019
See Independent Auditors' Report

Cash Flows from Operating Activities:	
Cash received from customers	\$ 2,868,413
Cash paid to suppliers for goods and services	(2,646,966)
Cash paid to employees for services	(465,729)
Net cash (used in) operating activities	<u>(244,282)</u>
Cash Provided by (used in) Capital and Related Financing Activities:	
Principal collections on capital leases	20,359
USDA grant	30,000
Purchase of capital assets	(39,212)
Net cash provided by capital and related financing activities	<u>11,147</u>
Cash Flows from Investing Activities:	
Decrease in investments	524,319
Interest received	83,809
Net cash provided by investing activities	<u>608,128</u>
Net increase in cash and cash equivalents	374,993
Cash and Cash Equivalents	
Balances - beginning of year	<u>511,074</u>
Balances - end of year	<u><u>\$ 886,067</u></u>
Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities	
Net (loss) from operations	\$(1,088,459)
Adjustments to reconcile net operating (loss) to net cash (used in) operating activities:	
Depreciation	804,785
Changes in assets and liabilities:	
Decrease in trade and other receivables	47,728
(Increase) in inventory	(1,881)
(Increase) in prepaid expenses	(2,171)
(Decrease) in trade accounts payable and accruals	(8,518)
Increase in customer advances	7,089
(Decrease) in unearned connection fees	(2,855)
Net cash (used in) operating activities	<u><u>\$ (244,282)</u></u>
Schedule of non-cash capital and related financing activities:	
Fixed asset contributions from other governments	\$ 3,304,529
Pension and group life insurance gain	64,536
	<u><u>\$ 3,369,065</u></u>

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

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Description and Purpose of Authority

The Pittsylvania County Service Authority (Authority) provides water and sewer services to the residents of Pittsylvania County, Virginia. The Authority is a governmental entity, a political subdivision of the Commonwealth of Virginia chartered February 27, 1973, under the Water and Sewer Authorities Act of 1950 of the Commonwealth of Virginia, as amended.

Note 2. Reporting Entity

The intent in establishing the Authority was to develop a public utility that would ultimately be self-sustaining, funded by the revenues it generates for the services it provides through charges to customers. At this time, the Authority continues to receive financial assistance from Pittsylvania County in the form of capital expenditures and debt service. A seven-member Board of Commissioners is appointed by the Pittsylvania County Board of Supervisors to govern the Authority. Commissioners are appointed for staggered four-year terms.

The Authority's Board of Commissioners is responsible for reviewing, approving, and revising its budget, control over the hiring of management and employees, and rate setting for charges to customers. The Authority's Charter establishes that the Pittsylvania County Board of Supervisors cannot impose its will upon the Authority; however, beginning in 2005 (See Note 11 - Moral Obligation Agreement) the Authority received a commitment from Pittsylvania County to underwrite certain debt service requirements of the Authority subject to appropriation by future Boards of Supervisors. Agreeing to underwrite this debt established a financial benefit/burden relationship which had not formally existed previously. The final debt service payment was made during the current fiscal year; however, the County continues to fund construction projects for the Authority on an ongoing basis. The Authority is deemed a component unit of Pittsylvania County, Virginia, and as such the assets, liabilities, operations, and cash flows of the Authority are reported in the financial statements of Pittsylvania County.

Note 3. Summary of Significant Accounting Policies

Measurement focus and basis of accounting:

The accounting policies and financial reporting of the Authority conform to accounting principles generally accepted in the United States of America applicable to governmental "enterprise" units. Accordingly, the accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as it applies to enterprise units.

The accompanying financial statements are presented using governmental accounting standards applicable to enterprise funds in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

The Board has elected to apply all applicable FASB pronouncements and Accounting Principles Board Opinions, issued on or before December 31, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Board also elected not to apply FASB pronouncements issued after December 31, 1989.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3. Summary of Significant Accounting Policies (Continued)

The accrual basis of accounting is used by the Authority for financial reporting, and thus, revenues are recognized when earned and expenses when incurred. The Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal operations. The principal operating revenues are charges to customers from sales of water and sewer services. Hydrant rentals, connection charges, and various other sales and administrative services are also charged to operating revenue. Operating expenses include the costs of services and sales, general and administrative expenses, and charges to depreciation for capital assets in service. Revenue and expenses not meeting the previous definitions are reported as non-operating revenues and expenses.

Cash and cash equivalents:

For the purposes of the statement of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash, and investments with a maturity of 90 days or less from the original purchase date. This includes certificates of deposits, short-term repurchase agreements, and liquid asset investment accounts.

Inventory:

The Authority maintains its inventory of materials and parts through a perpetual inventory system adjusted periodically for physical counts. The inventory is valued at cost on a first-in, first-out basis of accounting. Inventory consists primarily of maintenance items and are expensed when consumed rather than when purchased.

Investments:

Investments are reported at fair value in the statement of net assets. Changes in the fair value of investments are recorded as non-operating income in the statement of revenues, expenses, and changes in net assets. Fair value is estimated based on quoted market prices at year-end.

Capital assets:

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. The Authority's capital assets (comprised mainly of the utility plant in service) are stated at cost. From time to time third parties, including Pittsylvania County, land developers, and customers, complete water and sewer construction and contribute the completed construction to the Authority to own and maintain. Facilities contributed to the Authority in such a manner are recorded at fair value, generally the contributor's original cost, and added to the utility plant in service. A corresponding income amount is recorded as contributed capital/contributions in aid of construction. Depreciation is computed using the 150% declining balance method with useful lives varying from 5 to 20 years for equipment and 66 2/3 years for structures, lines, and accessories. When a capital asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is reflected as non-operating revenue or expense.

Major outlays for capital assets and improvements are capitalized as construction of the projects are completed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed each year.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3. Summary of Significant Accounting Policies (Continued)

Unbilled revenue:

The Authority records the amount of accrued but unbilled revenue by prorating actual subsequent billings. Amounts accrued but unbilled were approximately \$171,320 at December 31, 2019, respectively, and are included in accounts receivable, trade on the statement of net position.

Long-term obligations:

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable, where applicable, are reported net of the applicable bond premium or discount.

Interest on indebtedness:

Interest costs of the Authority are treated as non-operating expenses. Any interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. There were no capitalized interest costs for the year ended December 31, 2019.

Operating revenues and expenses:

Operating revenues, such as charges for services, result from exchange transactions associated with providing water and sewer services. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for the Authority include the cost of services, administrative expenses, and depreciation of capital assets. Any other costs are reported as non-operating expenses. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

Concentration of credit risk:

The Authority is engaged primarily in providing water and sewer service. In that capacity, credit is extended to customers, substantially all of whom are local residents and businesses. The Authority is also dependent on Pittsylvania County to fund a portion of its debt service requirements, if any, through the year ending December 31, 2019, and the funding of any significant additions and improvements to its system of water and sewer lines.

Compensated absences:

Authority employees earn vacation and sick leave each month at rates established by the Board of Commissioners. No benefit or pay is received for unused sick leave or vacation leave upon termination. At December 31, 2019, the Authority had no liability for compensated absences.

Bad debts:

Bad debts that may occur during the normal course of business are written off under the direct charge-off method in the year the debt is deemed uncollectible. No amount has been reserved for bad debts inasmuch as anticipated uncollectible amounts are deemed to be immaterial.

Use of estimates:

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

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3. Summary of Significant Accounting Policies (Continued)

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 Political Subdivision's Retirement Plan, and the additions to/deductions from the Political Subdivision'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.

Net position:

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

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/expenditure) until then. The County has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3. Summary of Significant Accounting Policies (Continued)

Group life insurance:

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program 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. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB, and the additions to/deductions from the VRS Group Life Insurance Program OPEB'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.

Note 4. Cash Deposits

Cash deposits – short-term:

At December 31, 2019, the carrying value of the Authority's short-term bank deposits totaled \$885,667, and the corresponding bank balance amounted to \$905,612. All of the Authority's short-term cash on deposit with banks and savings institutions were collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying participating depositors of the bank's compliance.

Investments:

Statutes authorize local government and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper, and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The Authority does not have a written investment policy.

Interest Rate Risk – The Authority limits its exposure to fair value losses arising from increasing interest rates by limiting the investments period to no more than 30 months.

Credit Risk – The Authority does not have a policy regarding credit risk.

Concentration of Credit Risk – The Authority does not place a limit on the amount of investments held with any one issuer.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash Deposits

Investments: (Continued)

Investments are reported at fair value based on quoted market prices. As of December 31, 2019, the Authority's investments and maturities were as follows:

Investment Type	Approximate Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
Certificates of Deposit	\$2,528,875	\$2,268,283	\$ 260,592

Note 5. Accounts Receivable

Accounts receivable - trade at December 31, 2019 consisted of the following:

Water and sewer services billed	214,529
Water and sewer services unbilled	171,320
	<u>\$ 385,849</u>

Accounts receivable – assistance funds:

On October 11, 2018, Tropical Storm Michael caused major flooding in Pittsylvania County resulting in significant damage to Authority owned infrastructure requiring major repairs. Through a federal disaster declaration, federal assistance funds in the amount of \$346,124 were granted to the Authority, of which \$145,276 was received in March 2020. These funds, through the Federal Emergency Management Agency and the Virginia Department of Emergency Management, are expected to be received beginning in April of 2020.

Note 6. Capital Lease Receivable

The Town of Gretna annexed a portion of Pittsylvania County which incorporated water lines belonging to Pittsylvania County Service Authority. In 2013, the Town contracted to purchase those lines that now lie inside the corporate limits of the Town through a capital lease. The lease obligation requires the Town to make annual payments of \$25,000 for a period of fourteen years for a total of \$350,000. In the event that the Town defaults on this obligation, the facilities would revert back to the Authority. At December 31, 2019, the outstanding balance on this obligation was \$158,132 applying an interest rate of 2.7% per annum. A summary of the annual maturities on the lease receivable for the next five years and thereafter is as follows:

Year	Amount		
	Receivable	Principal	Interest
2020	\$ 25,000	\$ 20,889	\$ 4,111
2021	25,000	21,432	3,568
2022	25,000	21,989	3,011
2023	25,000	22,561	2,439
2024	25,000	23,147	1,853
2025 - 2026	50,000	48,114	1,885
	<u>\$ 175,000</u>	<u>\$ 158,132</u>	<u>\$ 16,867</u>

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7. Contributed Capital

Contributions received from Pittsylvania County, private corporations, individuals, and others that are used to defray a part, or all, of the costs of installing additions to the utility plant or retirement of the related debt, are credited to contributed capital - contributions in aid of construction. The Authority reports cash and non-cash contributions as part of non-operating revenues (expenses). Contributed capital for the year ended December 31, 2019 consisted of the following:

Pittsylvania County Contributions:

Noncash contribution - construction in progress	<u><u>\$ 3,304,529</u></u>
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Note 8. Construction Work in Process

Below are the major categories of construction work in process costs from beginning to end of this fiscal year, with new costs incurred, the completed projects transferred out, and costs of projects remaining incomplete at December 31, 2019:

<u>Description</u>	<u>Beginning Balance</u>	<u>Added Costs</u>	<u>Completed Construction</u>	<u>Ending Balance</u>
Water Projects	\$ -	\$ -	\$ -	\$ -
Sewer Projects	2,022,065	3,307,728	-	5,329,793
	<u><u>\$ 2,022,065</u></u>	<u><u>\$ 3,307,728</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,329,793</u></u>

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 9. Utility Plant in Service

Changes in capital assets from December 31, 2018 to December 31, 2019 were as follows:

Non-depreciable assets:

	2018	Increase	Decrease	2019
Construction in progress	\$ 2,022,065	\$3,307,728	\$ -	\$ 5,329,793
Land and land rights	55,244	-	-	55,244
Land improvements	1,210	-	-	1,210
Total land and improvements	<u>56,454</u>	<u>-</u>	<u>-</u>	<u>56,454</u>
Total non-depreciable assets	<u>2,078,519</u>	<u>3,307,728</u>	<u>-</u>	<u>5,386,247</u>

Depreciable assets:

Buildings and operating equipment:

Water systems	30,100,010	-	-	30,100,010
Sewer systems	14,590,081	-	-	14,590,081
Shop, tools, and equipment	314,959	17,675	-	332,634
Office building	398,119	4,863	-	402,982
Total	<u>45,403,169</u>	<u>22,538</u>	<u>-</u>	<u>45,425,707</u>
Accumulated depreciation	<u>(14,949,408)</u>	<u>(755,874)</u>	<u>-</u>	<u>(15,705,282)</u>
Net book value	<u>30,453,761</u>	<u>(733,336)</u>	<u>-</u>	<u>29,720,425</u>

Transportation equipment:

Sewer systems vehicles	312,369	-	-	312,369
Accumulated depreciation	<u>(195,290)</u>	<u>(34,003)</u>	<u>-</u>	<u>(229,293)</u>
Net book value	<u>117,079</u>	<u>(34,003)</u>	<u>-</u>	<u>83,076</u>

Office equipment:

Support departments	178,524	13,473	-	191,997
Accumulated depreciation	<u>(165,232)</u>	<u>(14,906)</u>	<u>-</u>	<u>(180,138)</u>
Net book value	<u>13,292</u>	<u>(1,433)</u>	<u>-</u>	<u>11,859</u>

Total depreciable assets (net) 30,584,132 (768,772) - 29,815,360

Total capital assets (net) \$ 32,662,651 \$2,538,956 \$ - \$ 35,201,607

Note 10. Unearned Connection Fees and Deposits

Unearned connection fees totaling \$62,314 represent charges and deposits received for connections which had not been completed as of December 31, 2019.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan

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

The System administers three different benefit structures for covered employees referred to here as Plan 1, Plan 2, and Hybrid Plan. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan is described below.

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement determined by a formula.

About Plan 2

Plan 2 is also a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement determined by a formula.

About the Hybrid Retirement Plan

New personnel employed going forward will come under the provisions of what is referred to as the Hybrid Retirement Plan. The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

- The defined benefit is based on a member's age, creditable service, and average final compensation at retirement determined by a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Eligibility:

- Plan 1 - Employees are eligible if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.
- Plan 2 - Employees are eligible if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- Hybrid Retirement Plan - Employees are eligible if their membership date is on or after January 1, 2014 or if they elected this plan during the opt-in period.

Provisions of the plans currently applicable to the Authority are as follows:

Employees Covered by Benefit Terms:

Employee membership data related to the plan, as of June 30, 2018, the most recent year for which actuarial information is available, was as follows:

	<u>Number</u>
Inactive Members or Their Beneficiaries	
Currently Receiving Benefits	<u>3</u>
Inactive Members	<u>-</u>
Active Members	<u>6</u>
Total	<u><u>9</u></u>

Retirement Contributions:

Plan 1 - Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Plan 2 – Same as Plan 1.

Hybrid Plan – A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the Authority to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specific percentages.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Creditable Service:

Plan 1 and 2 carry the same creditable service provisions. Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Hybrid Plan –Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It may also include credit for prior service the member has purchased. A member's total creditable service is one of the factors used in determining their eligibility for retirement and to calculate their retirement benefit. Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting:

Plans 1 and 2 vesting requirements are the same. Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions they make.

Hybrid plan – For the defined benefit portion of the plan, vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component when they reach five years of creditable service. The defined contribution vesting refers to the minimum length of service needed to be eligible to withdraw the employer contribution from the defined contribution component of the plan. Members are always 100% vested in the contributions they make.

Benefits:

The Basic Benefit for Plan 1 and 2 is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Hybrid plan – the defined benefit component is calculated the same as under Plan 1. The defined contribution component is based on contributions made by the member and the matching contributions made by the employer, plus net investment earnings on those contributions.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Average Final Compensation:

Plans 1 and 2 average final compensation calculation differ only in the number of months used in the calculation. For Plan 1, a member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. Plan 2 and the Hybrid Plan make this calculation using the highest 60 consecutive months in the calculation.

Service Retirement Multiplier VRS:

Plan 1 - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for 2017 is 1.70%.

Plan 2 - The retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. For service earned, purchased, or granted prior to January 1, 2013, the multiplier is the same as for Plan 1.

Hybrid plan – The retirement multiplier for the defined benefit portion is 1.00%.

Normal Retirement Age:

For Plan 1 normal retirement age is 65, and for Plan 2 and the Hybrid plan it is normal social security retirement age.

Earliest Unreduced Retirement Eligibility:

Plan 1 - Unreduced retirement benefits are available at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Plan 2 - Unreduced retirement benefits are available at normal Social Security retirement age with at least five years (60 months) of creditable service or when the member's age and service equal 90.

Hybrid plan – Unreduced retirement benefits are available as in Plan 2 for the defined benefit component and for the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility:

Plan 1 – Member may receive reduced retirement benefits at age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Plan 2 - Member may receive reduced retirement benefits at age 60 with at least five years (60 months) of creditable service.

Hybrid plan – Reduced retirement benefits are available, at normal Social Security retirement age, with at least 60 months of creditable service or when their age and service equal 90. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Cost-of-Living Adjustment (COLA) in Retirement:

Plan 1 – Members qualify for COLA increases on July 1 of the second calendar year after retirement. The COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Plan 2 - COLA matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Hybrid plan – COLA is the same as for plan 2.

Eligibility for COLA after retirement is the same for all plans. For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The following effective dates exceptions apply: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage:

Plan 1 – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

Plan 2 - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.

Hybrid plan – Members participate in the Virginia Local Disability Program and are subject to a one year waiting period before becoming eligible for non work related disability benefits.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Purchase of Prior Service:

Plan 1 and 2 members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave, or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement, and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Hybrid plan – The defined benefit portion is the same as for Plan 1 with some exceptions. Hybrid Plan members are ineligible for ported service.

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 political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

Actuarial Assumptions: The total pension liability for employees in the Authority’s retirement plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Significant assumptions and other inputs used to measure the total pension liability include an inflation rate of 2.5%, a rate of future salary increases including inflation of 3.5% - 5.35%, and an investment rate of return of 7.0% net of pension plan investment expenses including inflation. Mortality rates are determined in accordance with the following tables:

Mortality Table	
For the period before retirement	RP-2014 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years
For the period after service retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale to BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.
For the period after disability retirement	RP-2014 Disabled Mortality Rates projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

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

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

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

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

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

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Net Pension Liability	<u>\$ 366,295</u>	<u>\$ 143,369</u>	<u>\$ (44,565)</u>

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Changes in Net Pension Liability

	Increase (Decrease)			6/30/2018 Pension Expense
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	
Balance at June 30, 2017	\$ 2,001,739	\$ 1,696,114	\$ 305,625	\$ -
Changes for the year:				
Service costs	20,107	-	20,107	20,107
Interest	136,924	-	136,924	136,924
Changes of assumptions	-	-	-	-
Difference between expected and actual experience (see below)	(152,601)	-	(152,601)	-
Expensed portion of current period difference between:				
Expected and actual expense in total pension liability	-	-	-	(28,000)
Contributions - Employer	-	28,739	(28,739)	-
Contributions - Employee	-	14,819	(14,819)	(14,819)
Net investment income	-	124,329	(124,329)	-
Projected earnings on plan investments	-	-	-	(117,013)
Expensed portion of current period difference between:				
Actual and projected earnings on plan investments	-	-	-	(1,463)
Benefit payments, including refunds of employee contributions	(91,360)	(91,360)	-	-
Administrative expense	-	(1,091)	1,091	1,091
Other expenses	-	(110)	110	110
Recognition of beginning deferred outflows of resources as pensions	-	-	-	37,800
Recognition of beginning deferred inflows of resources as pensions	-	-	-	(70,227)
Net changes	(86,930)	75,326	(162,256)	\$ (35,490)
Balance at June 30, 2018	\$ 1,914,809	\$ 1,771,440	\$ 143,369	

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended December 31, 2018, the Authority recognized pension income of \$3,205. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 33,472	\$ 162,536
Changes in assumptions	-	2,648
Net difference between projected and actual earnings on plan investments.	-	13,750
Employer contributions subsequent to the Measurement Date	35,840	-
	<u>\$ 69,312</u>	<u>\$ 178,934</u>

The \$35,840 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date which will be recognized as a reduction of the Net Pension Liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2020	\$ (38,161)
2021	(25,149)
2022	(40,087)
2023	(29,464)
2024	(12,601)
Thereafter	-

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (continued)

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

The political subdivision's contractually required employer contribution rate for the year ended June 30, 2019 was 9.14 % of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$ 148,624 and \$28,739 for the years ended June 30, 2019 and June 30, 2018, respectively. The 2019 contribution included \$108,587 of back payments due to hourly employees who were eligible in prior years but were not included in the plan.

The schedule of change in net pension liability and related ratios and the schedule of employer contributions are presented as required supplementary information following the notes to the financial statements.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, VA 23218-2500 or downloaded at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>.

Note 12. Group Life Insurance

General information about the group life insurance program

Plan description

All full-time, salaried, permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is 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 Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (continued)

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit amounts

The benefits payable under the Group Life Insurance Program have several components.

- Natural death benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental death benefit – The accidental death benefit is double the natural death benefit.
- Other benefit provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in benefits amounts

The benefit amounts provided to members covered under the Group Life Insurance Program 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.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

Minimum benefit amount and cost-of-living adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

Contributions

The contribution requirements for the Group Life Insurance Program 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 Group Life Insurance Program 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, 2019 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. Contribution to the Group Life Insurance Program from the entity were \$2,165 and \$2,708 for the years ended June 30, 2019 and June 30, 2018, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2019, the entities reported a liability of \$26,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .00344% as compared to .00366% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$0. 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.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 1,000	\$ -
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,000
Changes in assumptions	-	1,000
Changes in proportion	-	3,000
Employer contributions subsequent to the measurement date	<u>2,164</u>	<u>-</u>
Total	<u>\$ 3,164</u>	<u>\$ 5,000</u>

\$2,164 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, 2020. 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:

Year ended June 30	
2019	\$(1,000)
2020	(1,000)
2021	(2,000)
2022	<u>-</u>
	<u><u>\$(4,000)</u></u>

Actuarial assumptions:

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

Actuarial assumptions: (Continued)

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.50 percent – 5.35 percent
Teachers	3.50 percent – 5.95 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
JRS employees	4.50 percent
Locality – General employees	3.50 percent – 5.35 percent
Locality – Hazardous Duty employees	3.50 percent – 4.75 percent

Investment rate of return 7.00 percent, 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 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of the OPEB liabilities.

Mortality rates – 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 Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

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

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% to 20%

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

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% to 15%

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

Mortality rates – largest ten locality employers – hazardous duty employees

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

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 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

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
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Increased disability rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%

Mortality rates – non-largest ten locality employers – hazardous duty employees

Pre-retirement

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

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 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

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

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

Net GLI OPEB liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

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

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.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (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	40.00%	4.54%	1.82%
Fixed income	15.00%	0.69%	0.10%
Credit strategies	15.00%	3.96%	0.59%
Real assets	15.00%	5.76%	0.86%
Private equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.30%

Discount rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. 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 ending June 30, 2018, 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. From July 1, 2018 on, employers are assumed 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.

Sensitivity of the employer’s proportionate share of the net GLI OPEB liability to changes in the discount rate.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12. Group Life Insurance (Continued)

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 33,000	\$ 26,000	\$ 19,000

Group life insurance program fiduciary net position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13. Purchased Water and Sewage Treatment Agreements

The Authority contracts for sewage treatment with the City of Danville and the Town of Chatham. The contract with the Town of Chatham is on a cost reimbursement basis with fixed monthly payments and an adjustment, as necessary, after June 30, of each year. The monthly amount paid throughout 2019 was \$17,588.93. After actual treatment costs through June 30 are calculated each year, fees are adjusted retroactively for the six months beginning July 1, through December 31. At December 31, 2019, the adjustment amounted to an increased charge of \$12,657 which has been included in the current year's operating costs. The contract with the City of Danville calls for a rate equivalent to other Danville users which amounts to \$2.58 per 750 gallons processed until August 1, 2019 when it dropped to \$2.38 per 750 gallons processed.

Water is provided through agreements with the City of Danville, the Towns of Chatham and Hurt, and Henry County.

The rates for water are as follows:

City of Danville	\$2.40 per 750 gallons to 8/1/2019 then \$2.60 per 750 gallons
Henry County	\$.8296 per 1,000 gallons to 8/1/2019 then \$1.3245 per 1,000 gallons
Town of Chatham	\$1,028.63 per month – flat rate (adjusted annually)
Town of Hurt	\$70.00 minimum charge for first 6,000 gallons, thereafter \$5.50 per 1,000 gallons. Effective with the 8/12/19 to 11/12/19 quarterly bill, the minimum charge goes down to \$24, the overage threshold is eliminated, and there is a straight volumetric rate of \$9.10 per 1,000 gallons.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 14. 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; injuries to employees; and natural disasters. To mitigate the associated risks, the Authority participates in the Virginia Association of Counties Risk Pool, a public entity risk pool that was created to provide property and liability insurance and risk management services. The Virginia Association of Counties Risk Pool is self-insured for this coverage and the Authority could be assessed for additional premiums in the event the pool incurs losses. There have been no significant reductions in insurance coverage from the previous year, and claims have not exceeded coverage in any of the past three fiscal years.

The Authority carries \$250,000 in blanket employee dishonesty coverage through the Virginia Association of Counties, Group Self-Insured Risk Pool.

Note 15. Commitments

Maintenance agreements:

The Authority had commitments at December 31, 2019 related to maintenance of its water towers. The maintenance contract on the Authority's half-million gallon water tower located at the State Prison in Chatham, Virginia began in August of 2009 and requires annual fees each August. Beginning January 1, 2019, the annual fee was adjusted to \$21,464 and will be adjusted each third year of the contract thereafter to reflect the current year cost of service with adjustments limited to 5% per annum. In addition, the Authority has a commitment for the maintenance of its one million gallon water storage tank located in Ringgold, Virginia. The contract period started in November 2008 with annual fees payable each November. Currently, the fee amounts to \$28,479 and is adjusted each year to reflect the current year cost of service with adjustments limited to 5% per annum.

Note 16. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the organization expects such amounts, if any, to be immaterial.

At December 31, 2019, there were no matters of litigation involving Pittsylvania County Service Authority which would materially affect the organization's financial position should any court decision or pending matter be determined unfavorable to the organization.

Note 17. Related Party Transactions

As previously stated, the Authority is a component unit of Pittsylvania County (see Note 2). Other support provided by Pittsylvania County is included in contributed capital. See Note 7 regarding the County's contribution to the Authority for 2019. In addition, the County rents fire hydrants from the Authority. For the current fiscal year, the County paid the Authority \$78,800 for hydrant rentals.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 18. Subsequent Events – Management Review

On March 17, 2020 the Pittsylvania County Board of Supervisors (PCBOS) passed a resolution removing the current Pittsylvania County Service Authority (PCSA) Commissioners and appointing each of the PCBOS members as PCSA Commissioners. The Board determined that it was in the best interests of the County and its citizens to remove the PCSA Commissioners for various reasons listed in the resolution.

In regards to these financial statements and the notes to these financial statements, the Authority has evaluated all subsequent events through April 17, 2020, the date the Authority's financial statements are available to be issued.

PITTSYLVANIA COUNTY SERVICE AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For the Year Ended December 31, 2018

See Independent Auditors' Report

	<u>2018 Valuation</u>	<u>2017 Valuation</u>	<u>2016 Valuation</u>	<u>2015 Valuation</u>	<u>2014 Valuation</u>
Total Pension Liability					
Service costs	\$ 20,107	\$ 19,435	\$ 27,777	\$ 31,208	\$ 31,135
Interest	136,924	130,513	126,793	131,883	126,310
Changes of assumptions	-	(4,784)	-	-	-
Difference between expected and actual expenses	(152,601)	56,007	5,964	(154,659)	-
Benefit payments, including refunds of employee contributions	(91,360)	(127,811)	(86,966)	(75,324)	(80,333)
Net change in total pension liability	(86,930)	73,360	73,568	(66,892)	77,112
Total pension liability - beginning	2,001,739	1,928,379	1,854,811	1,921,703	1,844,591
Total pension liability - ending	<u>\$ 1,914,809</u>	<u>\$ 2,001,739</u>	<u>\$ 1,928,379</u>	<u>\$ 1,854,811</u>	<u>\$ 1,921,703</u>
Plan fiduciary net position					
Contributions - employer	\$ 28,739	\$ 25,785	\$ 41,412	\$ 44,592	\$ 40,398
Contributions - employee	14,819	13,469	15,618	16,637	16,988
Net investment income	124,329	189,835	27,309	70,507	212,701
Benefit payments, including refunds of employee contributions	(91,360)	(127,811)	(86,966)	(75,324)	(80,333)
Administrative expenses	(1,091)	(1,162)	(1,006)	(966)	(1,154)
Other expenses	(110)	(166)	(12)	(14)	11
Net change in plan fiduciary net position	75,326	99,950	(3,645)	55,432	188,611
Plan fiduciary net position - beginning	1,696,114	1,596,164	1,599,809	1,544,377	1,355,766
Plan fiduciary net position - ending	<u>\$ 1,771,440</u>	<u>\$ 1,696,114</u>	<u>\$ 1,596,164</u>	<u>\$ 1,599,809</u>	<u>\$ 1,544,377</u>
Plan fiduciary net position as a percentage of total pension liability	<u>92.51%</u>	<u>84.73%</u>	<u>82.77%</u>	<u>83.25%</u>	<u>93.95%</u>
Covered-employee payroll	<u>\$ 416,299</u>	<u>\$ 317,727</u>	<u>\$ 275,082</u>	<u>\$ 351,269</u>	<u>\$ 330,542</u>
Net pension liability as a percentage of covered-employee payroll	<u>23.50%</u>	<u>18.73%</u>	<u>17.23%</u>	<u>18.28%</u>	<u>17.92%</u>

See Notes to Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions

SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Year Ended December 31, 2018

<u>Date</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Employees Payroll</u>	<u>Contribution as a % of Covered Employees Payroll</u>
2018	\$ 28,739	\$ 28,739	\$ -	\$ 357,330	8.04%
2017	\$ 25,785	\$ 25,785	\$ -	\$ 297,405	8.67%
2016	\$ 41,412	\$ 41,412	\$ -	\$ 275,082	15.05%
2015	\$ 44,592	\$ 44,592	\$ -	\$ 351,269	12.69%
2014	\$ 40,398	\$ 40,398	\$ -	\$ 330,542	12.22%
2013	\$ 50,560	\$ 50,560	\$ -	\$ 322,438	15.68%
2012	\$ 44,252	\$ 44,252	\$ -	\$ 309,302	14.31%
2011	\$ 46,489	\$ 46,489	\$ -	\$ 309,302	15.03%
2010	\$ 42,572	\$ 42,572	\$ -	\$ 298,420	14.27%
2009	\$ 38,656	\$ 38,656	\$ -	\$ 298,420	12.95%
2008	\$ 47,645	\$ 47,645	\$ -	\$ 358,986	13.27%

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2019*

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 following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All others (Non 10 Largest) – Non-LEOS:

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

All others (Non 10 Largest) – LEOS:

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

*The amounts presented have a measurement date of the previous fiscal year end.

PITTSYLVANIA COUNTY SERVICE AUTHORITY

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GROUP LIFE INSURANCE PROGRAM

For the Year Ended June 30, 2019 *

See Independent Auditors' Report

	2018	2017
Employer's proportion of the net GLI OPEB liability (asset)	0.00169%	0.00169%
Employer's proportionate share of the net GLI OPEB liability (asset)	\$ 26,000	\$ 23,000
Employer's covered payroll	\$ 416,299	\$ 321,278
Employer's proportionate share of the net GLI OPEB liability (asset) as a percentage of its covered payroll	6.25%	7.16%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM

For the Years Ended June 30, 2010 through 2019

See Independent Auditors' Report

Date	Contributions in Relation to			Employer's Covered Payroll	Contributions as a % of Covered Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)		
	(1)	(2)	(3)	(4)	(5)
2019	\$ 2,165	\$ 2,165	\$ -	\$ 416,299	0.52%
2018	\$ 1,671	\$ 1,671	\$ -	\$ 321,278	0.52%
2017	\$ 1,501	\$ 1,501	\$ -	\$ 288,762	0.52%
2016	\$ 1,582	\$ 1,582	\$ -	\$ 329,614	0.48%
2015	\$ 1,677	\$ 1,677	\$ -	\$ 349,361	0.48%
2014	\$ 1,631	\$ 1,631	\$ -	\$ 339,769	0.48%
2013	\$ 1,513	\$ 1,513	\$ -	\$ 315,234	0.48%
2012	\$ 866	\$ 866	\$ -	\$ 309,307	0.28%
2011	\$ 866	\$ 866	\$ -	\$ 309,307	0.28%
2010	\$ 614	\$ 614	\$ -	\$ 227,565	0.27%

See Notes to Schedule of Employer's Share of Net OPEB Liability and Schedule of Employer Contributions Group Life Insurance Program

PITTSYLVANIA COUNTY SERVICE AUTHORITY

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018

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

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 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% to 20%

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% to 15%

PITTSYLVANIA COUNTY SERVICE AUTHORITY
WATER PUMPING AND GENERAL AND ADMINISTRATIVE EXPENSE SCHEDULES
For the Year Ended December 31, 2019
See Independent Auditors' Report

Water Pumping Expenses:

Water tank maintenance	\$ 113,606
Maintenance of equipment	2,645
Power purchased	72,314
Total water pumping expenses	\$ 188,565

General and Administrative Expenses:

Salaries - meter readers	\$ 9,472
Salaries - accounting	96,937
Salaries - administrative and general	108,396
Salaries - director	91,200
Salaries - board of commissioners	15,075
Beacon meter reading services	37,551
Contracted services	2,063
Travel and meetings expense	5,385
Computer programs and support	11,170
Legal	7,714
Auditing	12,900
Office supplies and postage	18,060
Dues and subscriptions	2,716
Insurance	28,225
Telephone	9,158
Electricity-office	3,487
Maintenance of general equipment	5,415
Gasoline and diesel	14,190
Advertising	900
Office fuel	4,156
Miss Utility	1,989
Mowing and grounds	10,180
Office cleaning	4,833
Office machine maintenance	3,706
Payroll taxes	15,897
Medical insurance	100,778
Retirement contributions expense	150,571
Uniforms	4,595
Water assessment tax	11,631
Shop supplies	470
Miscellaneous	212
Total general and administrative	\$ 789,032

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 Commissioners
Pittsylvania County Service Authority
Danville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Pittsylvania County Service Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which comprise Pittsylvania County Service Authority's basic financial statements and have issued our report thereon dated April 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pittsylvania County Service Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pittsylvania County Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pittsylvania County Service Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pittsylvania County Service Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 accounting principles generally accepted in the United States of America and *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harris Harvey Neal & Co. LLP

Danville, Virginia
April 17, 2020

FOUNDING / PURPOSE



- Established in 1973 by the County Board of Supervisors under the provisions of the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950, as amended.
- Our purpose is to provide water distribution and wastewater collection services for all areas of the county outside the City of Danville and outside the incorporated towns of Chatham, Hurt and Gretna.
- We are funded by the rates and fees we charge our customers to provide the above services.



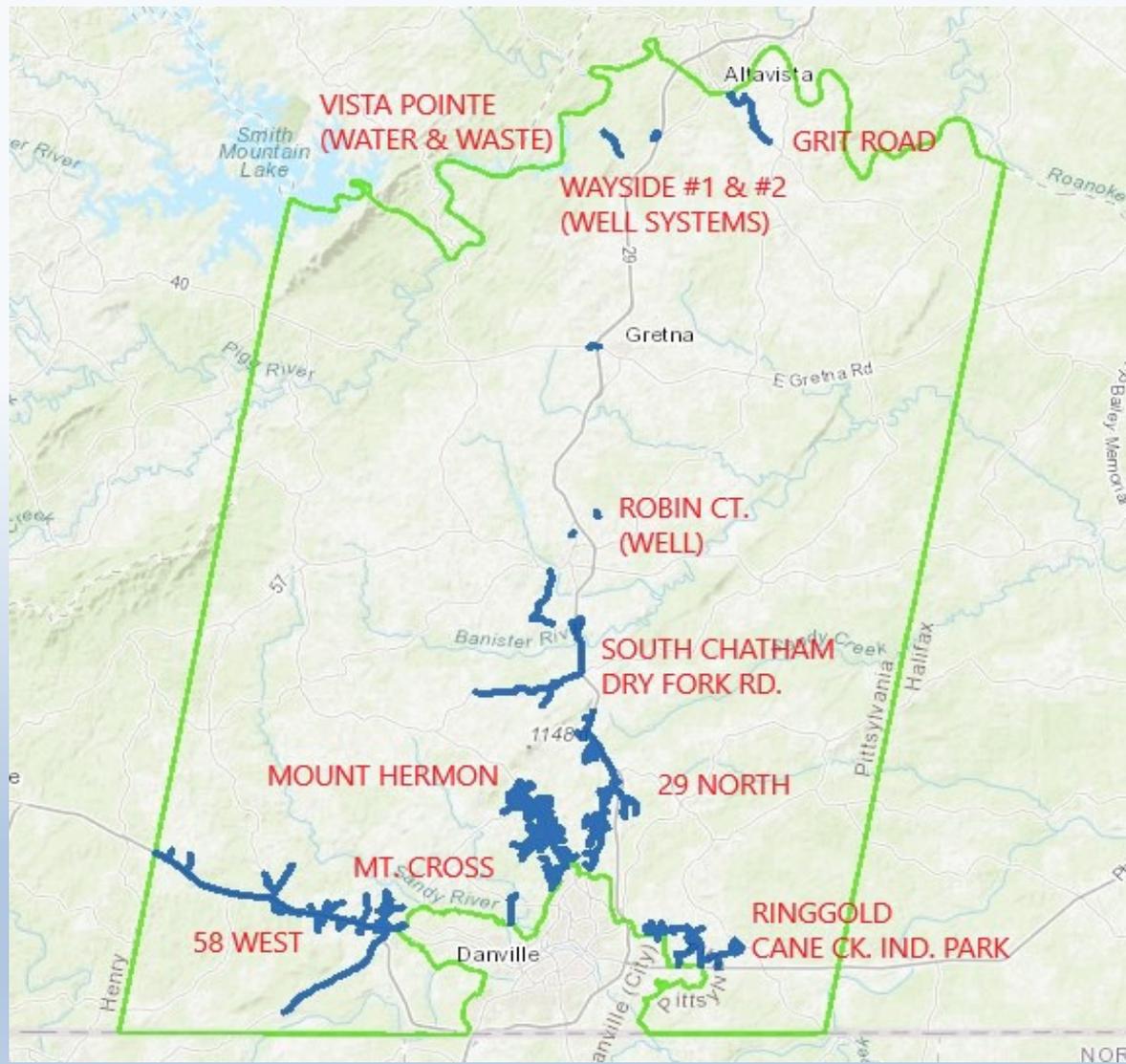
OPERATIONS



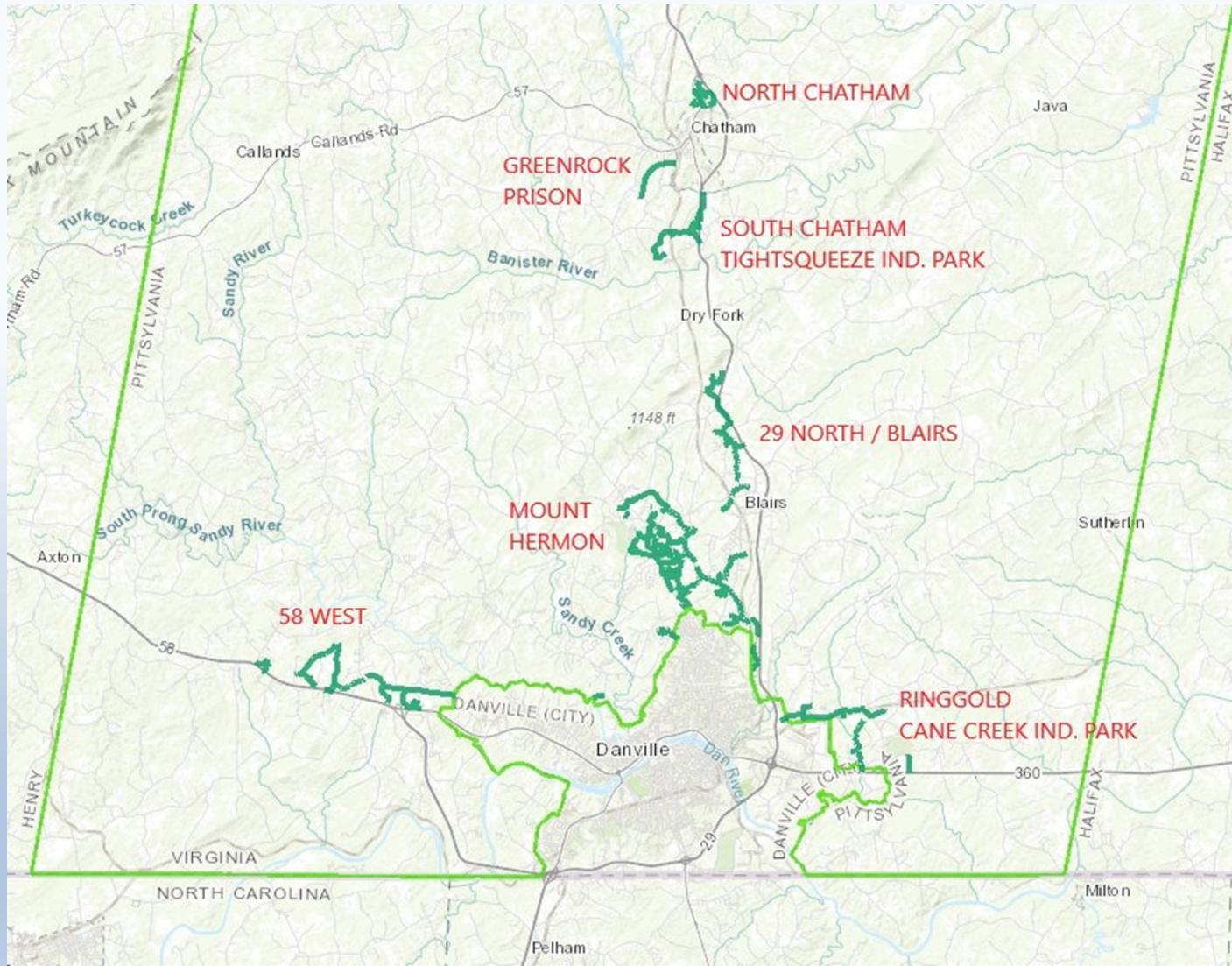
- PCSA operates twelve (12) water systems throughout the County and provides wastewater collection in parts of six (6) of these areas. For eight (8) of our systems, the PCSA has contracts to purchase bulk water from the City of Danville, the Henry County Public Service Authority, the Town of Chatham and the Town of Hurt. The other four (4) water systems are served by wells. We also have wastewater treatment agreements with Danville and Chatham.
- To serve our 3500 customers, we maintain the following physical assets:
 - 113 miles of water mains - 350 manholes
 - 4 water booster stations - 73 miles of wastewater collection pipe
 - Over 600 fire hydrants - 15 wastewater pump stations



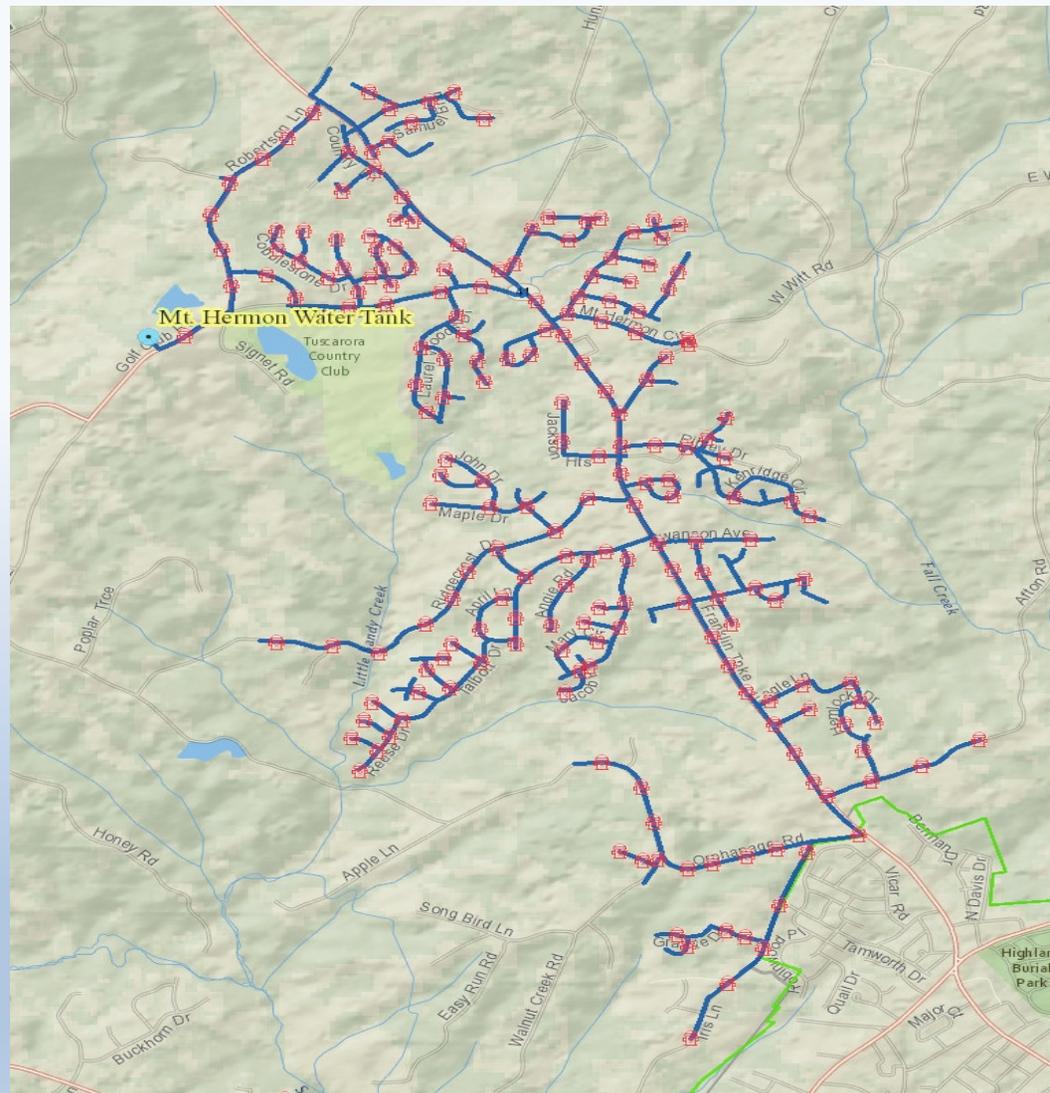
WATER SYSTEMS



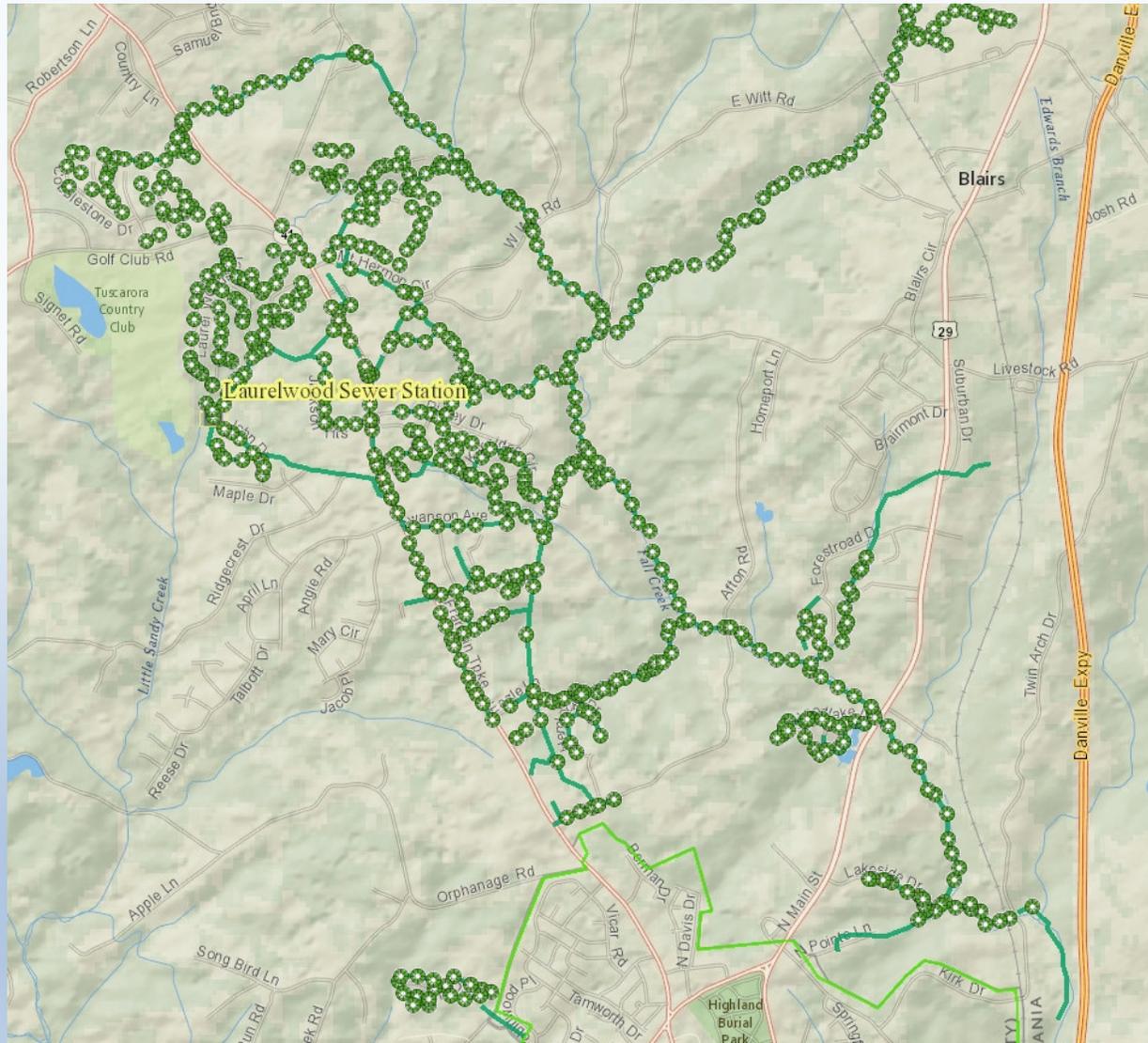
WASTEWATER COLLECTION AREAS



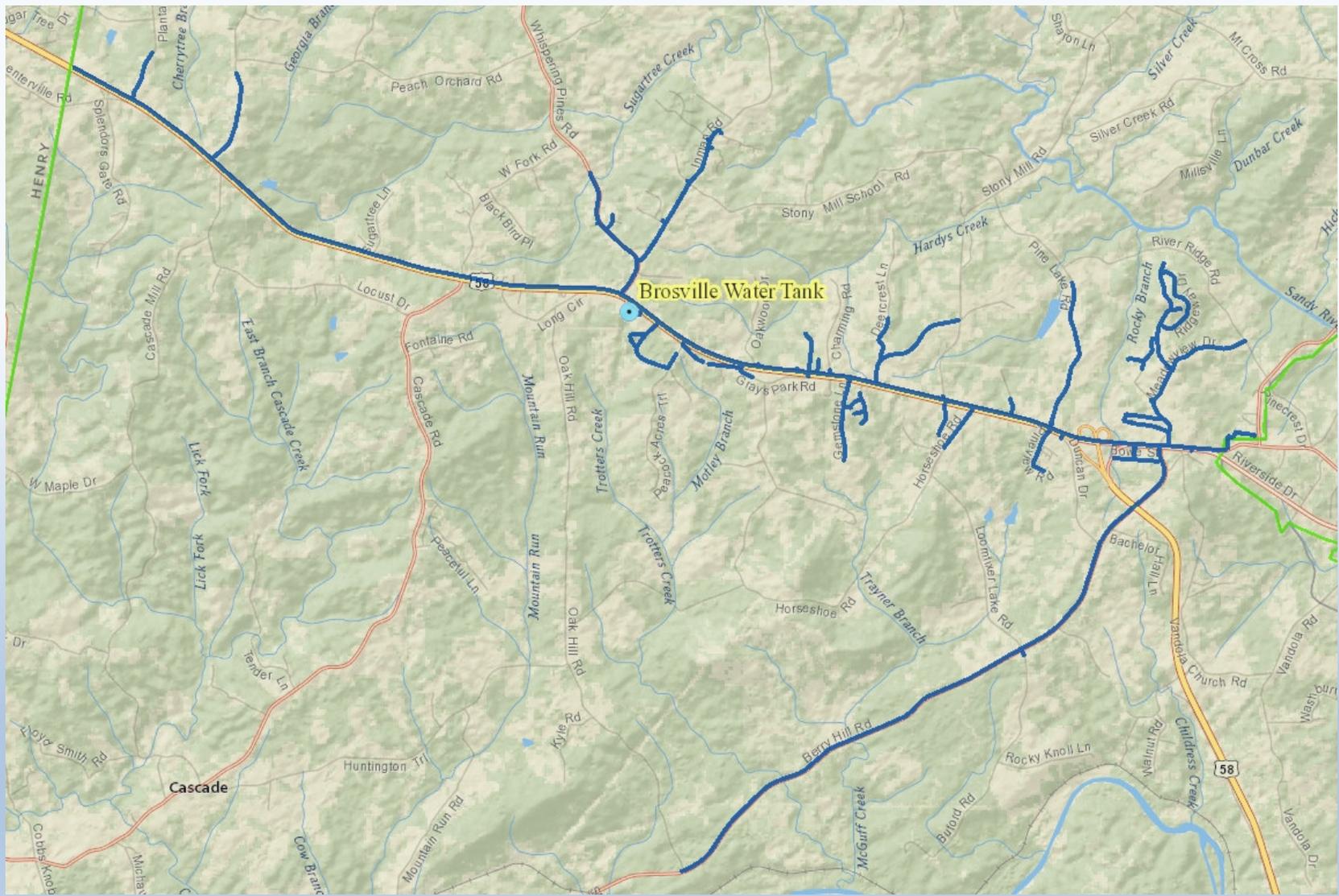
MOUNT HERMON WATER SYSTEM



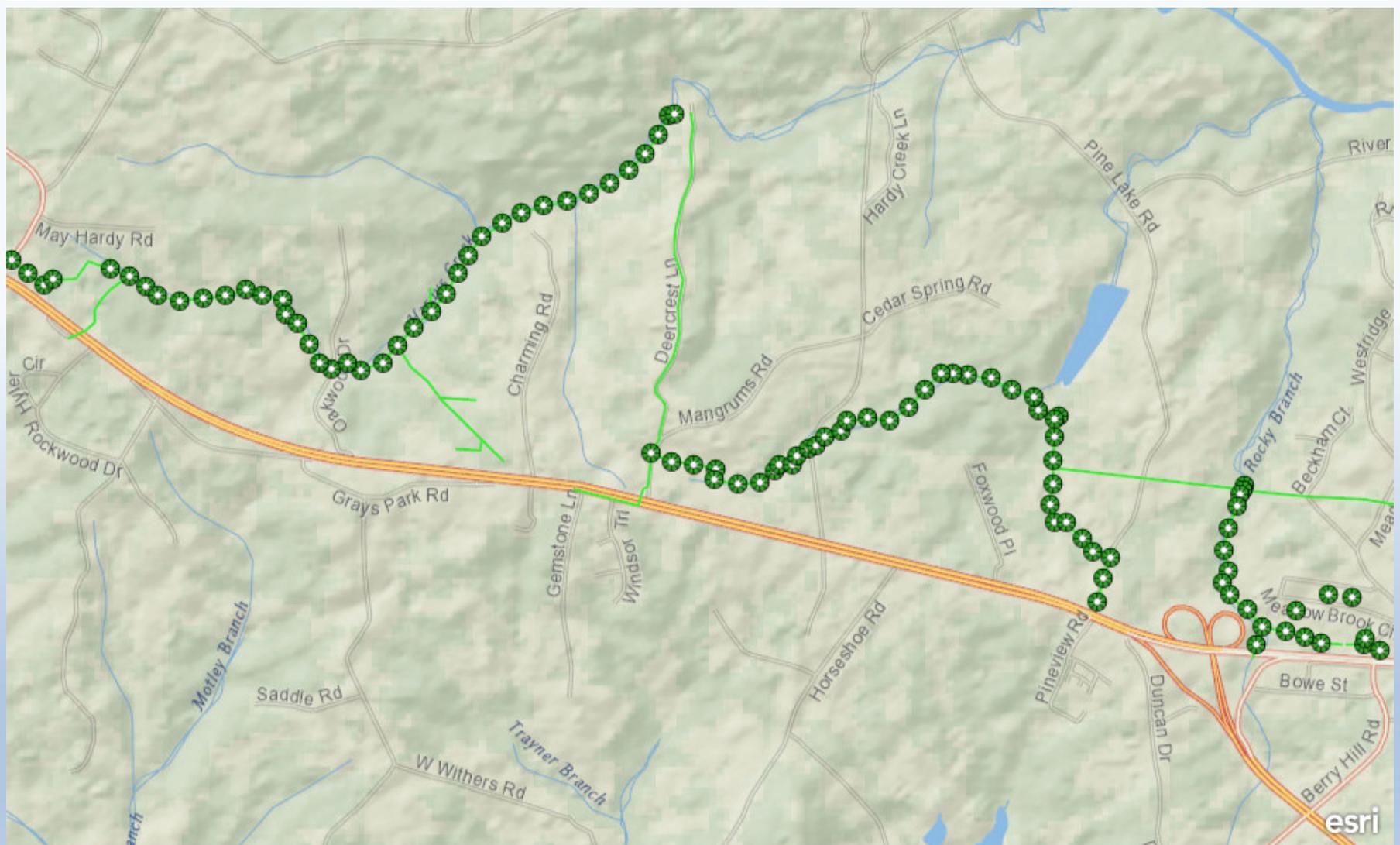
MOUNT HERMON WASTEWATER



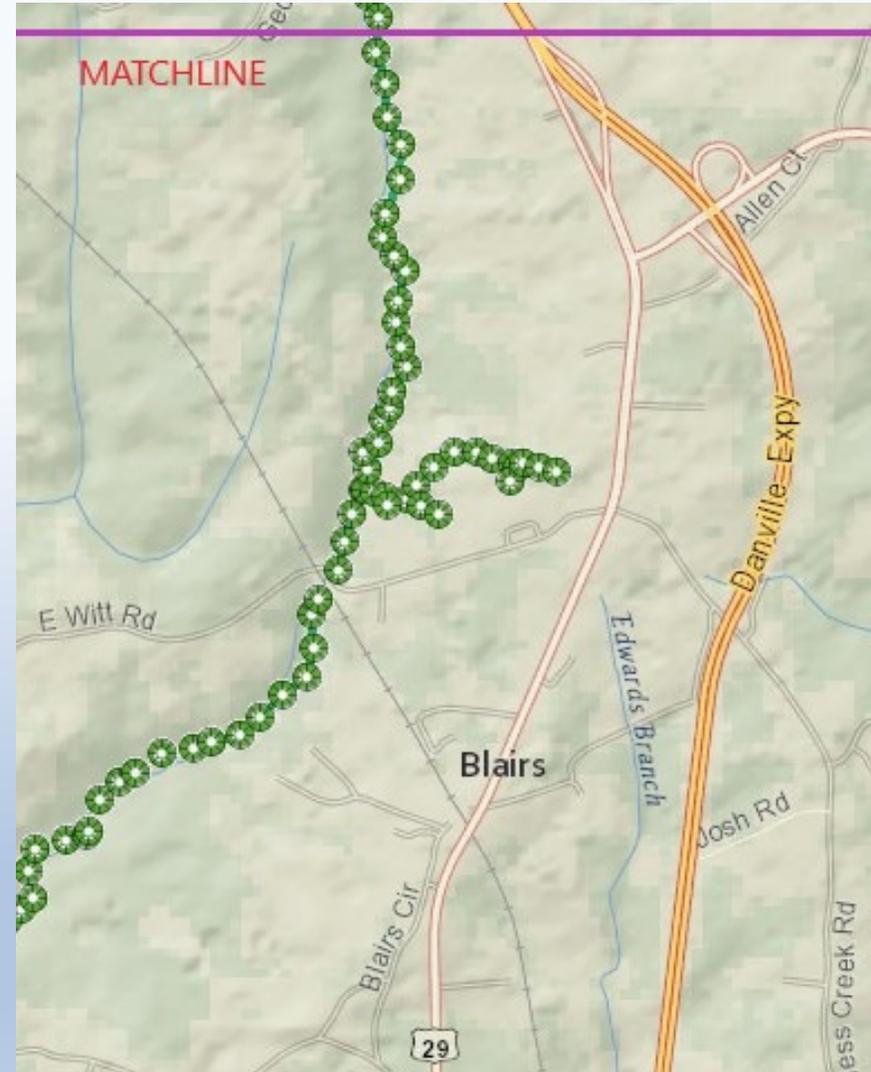
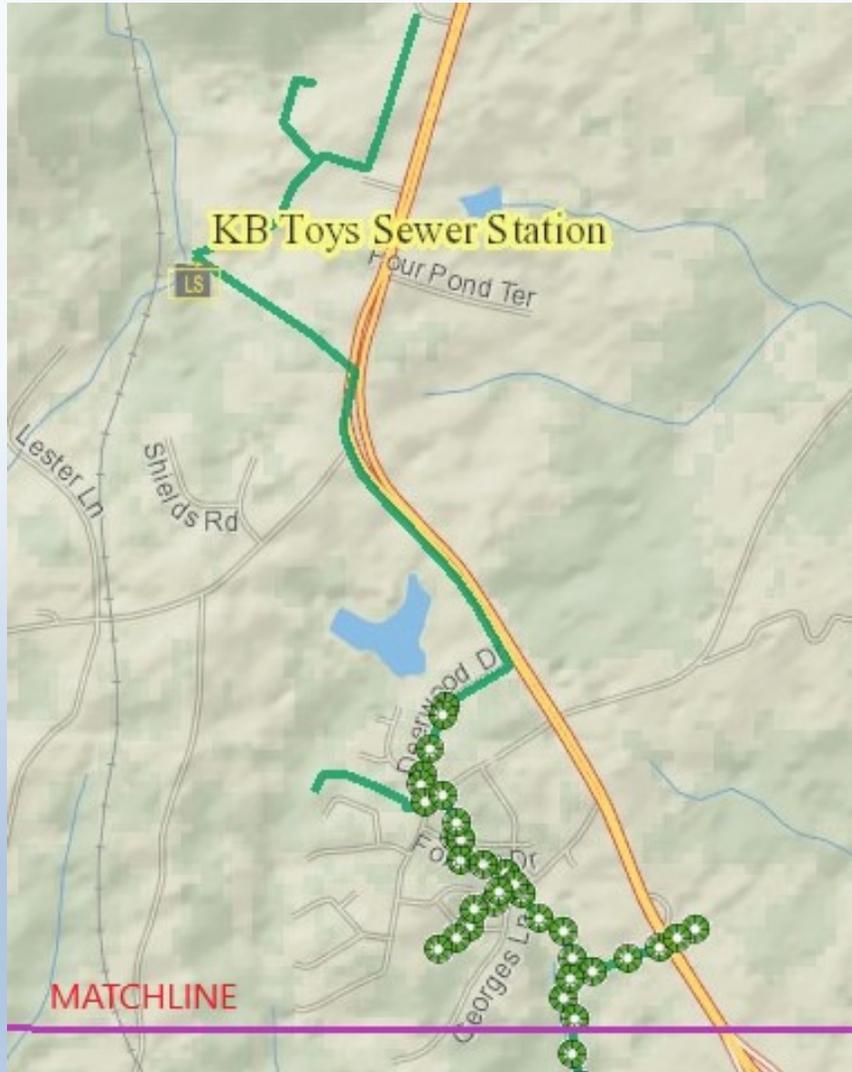
HWY. 58 WEST WATER SYSTEM



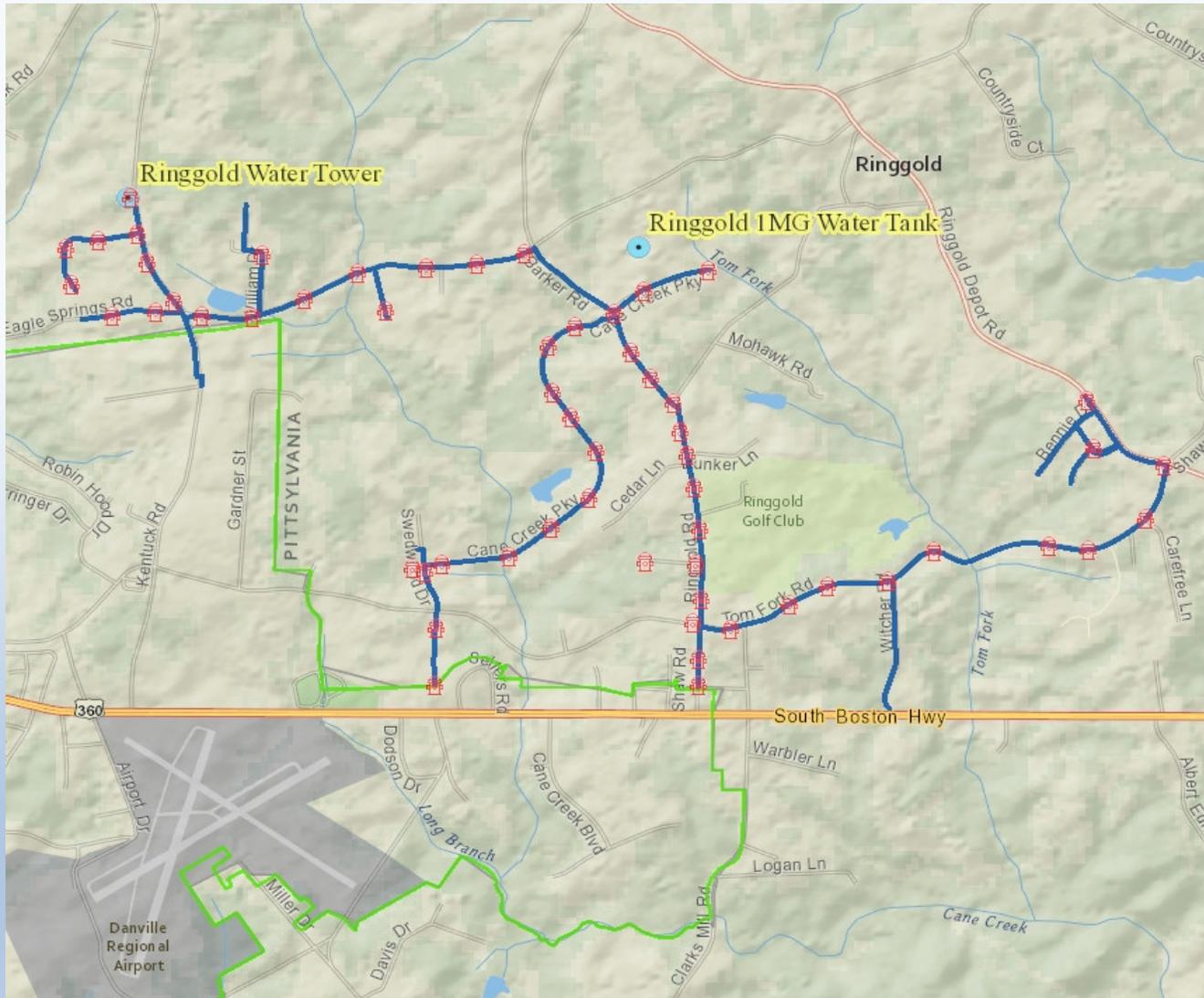
HWY. 58 WEST WASTEWATER



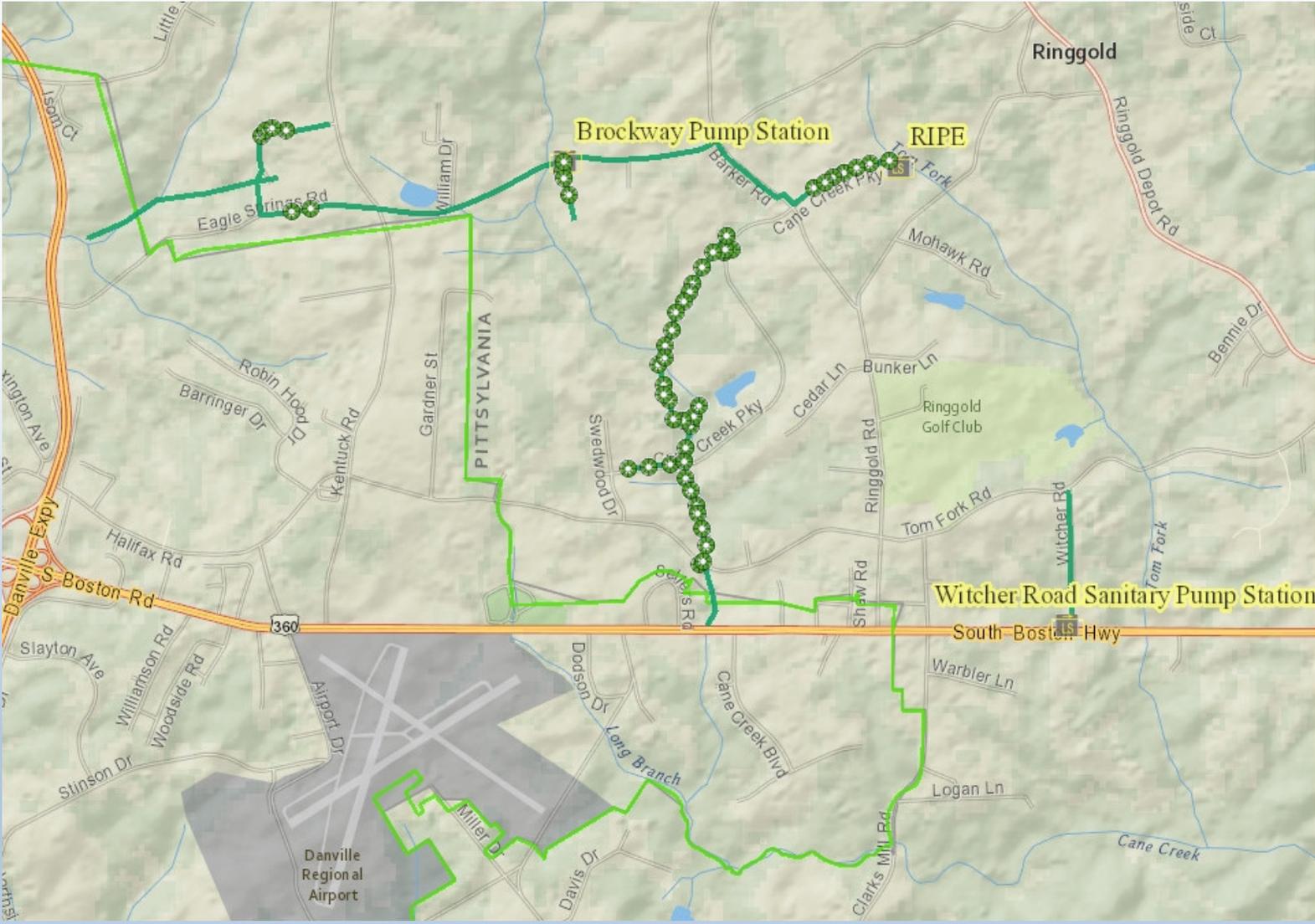
HWY. 29 NORTH WASTEWATER



RINGGOLD WATER SYSTEM



RINGGOLD WASTEWATER



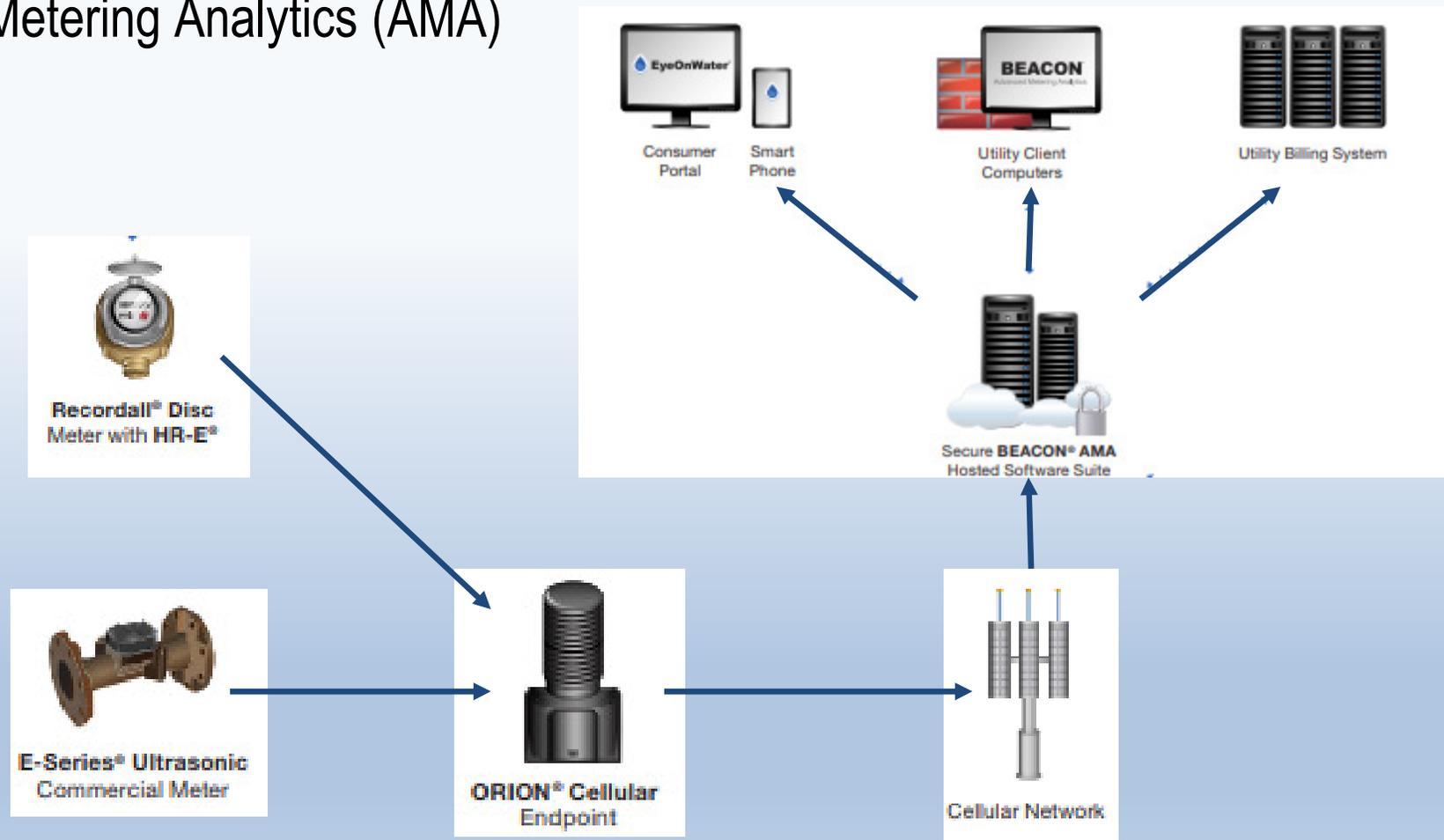
REGULATORY REQUIREMENTS



- All public water systems in the state are regulated by the Virginia Department of Health – Office of Drinking Water (ODW) in compliance with the Virginia Public Water Supply Law and the federal Safe Drinking Water Act (SDWA).
- We must test for multiple contaminants regularly throughout the year and must reports these finding annually to our customers through our Consumer Confidence Report.

TECHNOLOGICAL ADVANCES

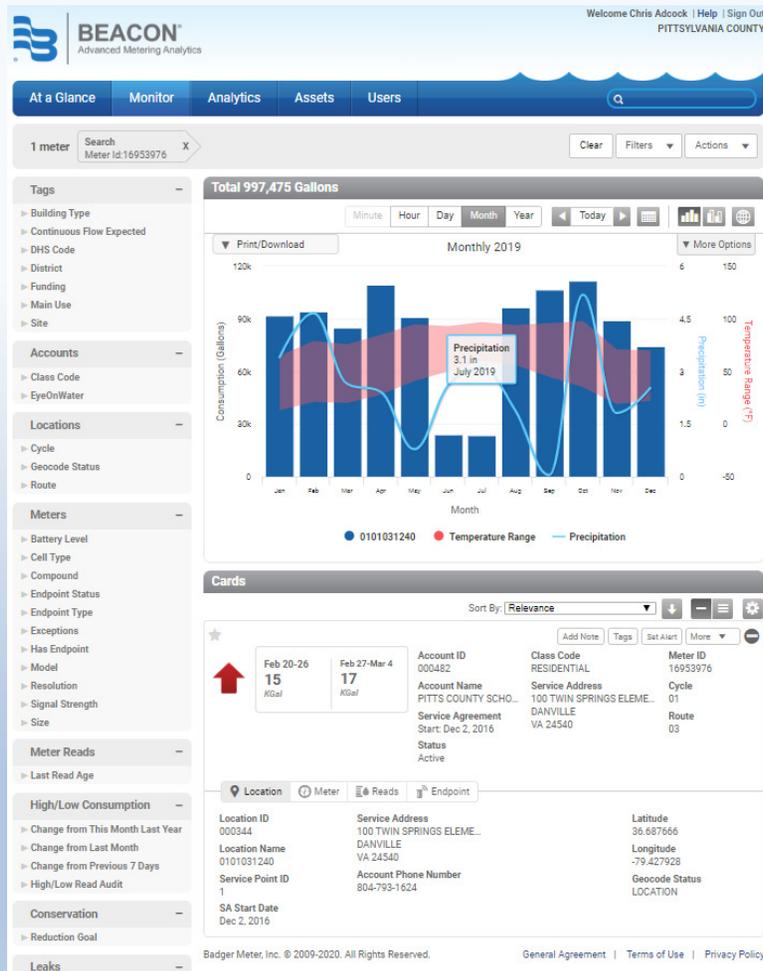
- BEACON® Advanced Metering Analytics (AMA)



TECHNOLOGICAL ADVANCES



- Web-based Interface



- EyeOnWater Consumer Engagement Portal & Phone App



PROPOSED CAPITAL PROJECTS



- 58 West, Mount Hermon, Mount Cross & 29 North Water Systems Interconnection
- Brockway / Cane Creek Sanitary Sewer Extension
- SCADA (Supervisory Control And Data Acquisition), a computer system for gathering and analyzing real time data from all of our water and wastewater pumping stations

FYI



\$1.59



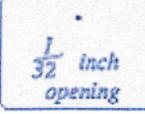
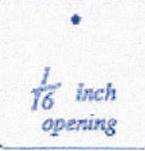
\$0.0009

- Delivered directly to your home
- You could fill 1,760 20oz. bottles from your tap for the cost of one Dasani.
- The federal Safe Drinking Water Act (SDWA) holds all public sources of drinking water to strict safety standards.
- Bottled water is regulated by the FDA and doesn't have the same reporting standards as tap water.

Leak Impact Chart

Are water leaks costing you money?

The following chart shows the amount of water that can be lost (and billed to your account) for various size leaks.

 <p>a dripping faucet</p>	<p>A dripping leak consumes: 15 gal. per day 450 gal. per month</p>	<p>A 1/8 in. leak consumes: 3,806 gal. per day 114,200 gal. per month</p>	 <p>1/8 inch opening</p>
 <p>1/32 inch opening</p>	<p>A 1/32 in. leak consumes: 264 gal. per day</p>	<p>A 1/4 in. leak consumes: 15,226 gal. per day 456,800 gal. per month</p>	 <p>1/4 inch opening</p>
 <p>1/16 inch opening</p>	<p>A 1/16 in. leak consumes: 943 gal. per day 28,300 gal. per month</p>	<p>A 1/2 in. leak consumes: 60,900 gal. per day 1,827,000 gal. per month</p>	 <p>1/2 inch opening</p>

ASSUMES APPROXIMATELY 60 PSI
WATER PRESSURE