# HALIFAX COUNTY SERVICE AUTHORITY
# SOUTH BOSTON, VIRGINIA

## FINANCIAL REPORT
## FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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# - Introductory Section -

HALIFAX COUNTY SERVICE AUTHORITY

## MEMBERS

Gray Ramsey, Chairman

Katherine D.S. Bane, Vice-Chairman

| | |
|---|---|
| Bill Snead | Joe Barkley |
| Fields Thomas | Kelly Phillips |

George Leonard

## OFFICIALS

Mark Estes, Executive Director

- Financial Section -

ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

CPAs | CONSULTANTS

## Independent Auditors' Report

**To the Board of Directors**
**Halifax County Service Authority**
**South Boston, Virginia**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Halifax County Service Authority, as of June 30, 2019 and 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Change in Accounting Principle*

As described in Note 10 to the financial statements, in 2019, the Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* and early implemented GASB No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding on pages 4-7 and 41-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Halifax County Service Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2020, on our consideration of Halifax 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Halifax 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 Halifax County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 25, 2020

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As management of Halifax County Service Authority ("HCSA" or "the Authority"), we offer readers of our financial statements this narrative, overview, and analysis of the financial activities of the Authority for the years ended June 30, 2019, 2018, and 2017.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to financial statements.

### Enterprise fund financial statements

The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The basic enterprise fund financial statements can be found on Exhibits 1 - 3 of this report.

### Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 11 through 39 of this report. Note 5 presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

## Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $30,696,156 (net position). Of this amount, $3,938,177 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

## Financial Analysis

### Net investment in capital assets

The Authority uses capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Unrestricted net position

Unrestricted net position is used by the Authority to finance day-to-day operations without restrictions established by debt covenants or other requirements. Unrestricted cash and investments consist of government securities, bank deposits, and other cash-equivalents. The restricted assets are accounts and funds that are held for special purpose uses, such as refunding deposits or debt service reserves. The Authority established several new reserve accounts to accumulate funds in compliance with its Rural Development bond covenants.

The following table provides a summary of the statement of net position.

| | Net Position | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Current and other assets | $ 5,719,969 | $ 6,168,955 | $ 5,420,008 |
| Capital assets | 40,390,959 | 39,091,060 | 38,818,639 |
| Total assets | $ 46,110,928 | $ 45,260,015 | $ 44,238,647 |
| Deferred outflows of resources | $ 228,713 | $ 201,571 | $ 273,161 |
| Long-term liabilities | $ 13,422,420 | $ 11,728,431 | $ 10,735,598 |
| Other liabilities | 2,120,003 | 2,051,226 | 1,459,122 |
| Total liabilities | $ 15,542,423 | $ 13,779,657 | $ 12,194,720 |
| Deferred inflows of resources | $ 101,062 | $ 127,696 | $ 18,575 |
| Net position: | | | |
| Net investment in capital assets | $ 26,757,979 | $ 27,109,685 | $ 29,562,874 |
| Unrestricted | 3,938,177 | 4,444,548 | 2,735,639 |
| Total net position | $ 30,696,156 | $ 31,554,233 | $ 32,298,513 |

Financial Analysis: (Continued)

## Changes in Revenues, Expenses, and Net Position

While the Statement of Net Position reflects the change in the Authority's financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides insight as to the nature and source of those changes.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets.

| | Change in Net Position | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Revenues:** | | | |
| Operating revenues | $ 5,182,246 | $ 5,121,638 | $ 4,968,252 |
| Contribution from participating governments | 122,659 | 122,013 | 126,488 |
| Other nonoperating revenue | 22,245 | 120,277 | 51,950 |
| Investment income | 42,005 | 23,206 | 11,128 |
| Total revenues | $ 5,369,155 | $ 5,387,134 | $ 5,157,818 |
| **Expenses:** | | | |
| Operating expenses (excluding depreciation) | $ 3,999,346 | $ 3,898,982 | $ 4,053,803 |
| Depreciation expense | 1,850,136 | 1,828,155 | 2,071,540 |
| Interest expense | 377,750 | 294,277 | 304,971 |
| Total expenses | $ 6,227,232 | $ 6,021,414 | $ 6,430,314 |
| Increase (decrease) in net position | $ (858,077) | $ (634,280) | $ (1,272,496) |
| Net position-beginning | 31,554,233 | 32,188,513 | 33,571,009 |
| Net position-ending | $ 30,696,156 | $ 31,554,233 | $ 32,298,513 |

### Operating and nonoperating expenses

Operating expenses consist of personnel services, contractual services, materials and supplies, utilities, insurance, and other operating expenses that keep the Authority running on a day to day basis. Non-operating expenses consist of interest expense and other costs that are incurred that do not fall under operating expense. In addition to the interest expense, the principal payments on outstanding debt are included in this chart as they must be paid from the revenues received by the Authority.

## Capital Assets

The Authority's net investment in capital assets consists of a broad range of capital assets such as land, buildings, water and sewer lines, water storage facilities, water and wastewater plants, pump stations, machinery, equipment, computers, and vehicles. More information on the Authority's capital assets is presented in Note 3 of the Notes to Financial Statements.

The following table summarizes the Authority's capital assets, net of accumulated depreciation as of June 30, 2019, 2018 and 2017.

| | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|
| **Capital assets not being depreciated** | | | |
| Land | $ 133,500 | $ 133,500 | $ 133,500 |
| Construction in progress | 5,556,006 | 2,435,825 | 501,327 |
| Total capital assets not being depreciated | $ 5,689,506 | $ 2,569,325 | $ 634,827 |
| Capital assets being depreciated | | | |
| Utility plant lines and accessories | $ 57,226,317 | $ 57,226,317 | $ 57,128,764 |
| Vehicles and equipment | 1,025,224 | 995,370 | 926,845 |
| Total assets being depreciated | $ 58,251,541 | $ 58,221,687 | $ 58,055,609 |
| Less: Accumulated depreciation | (23,550,088) | (21,699,952) | (19,871,797) |
| Capital assets being depreciated, net | $ 34,701,453 | $ 36,521,735 | $ 38,183,812 |
| Net capital assets | $ 40,390,959 | $ 39,091,060 | $ 38,818,639 |

## Debt Administration

### Long-term Obligations

Long-term debt is used by the Authority to finance capital projects due to growth in the system, aging equipment and lines, or changes in regulations. Other long-term obligations of the Authority include employee accrued leave and net OPEB liabilities. More detailed information on the Authority's long-term liabilities is presented in Note 4 of the Notes to the Financial Statements.

At the end of the current fiscal year, the Authority had $13,685,010 in bonds and notes outstanding. The Authority also had $182,972 in compensated absences and $540,221 of Net OPEB liabilities.

## Requests for Information

This financial report is designed to meet reporting standards and to provide a general overview of the Authority's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Halifax County Service Authority, 2529 Houghton Avenue, South Boston, Virginia 24592.

- Basic Financial Statements -

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HALIFAX COUNTY SERVICE AUTHORITY Exhibit 1

Statements of Net Position
As of June 30, 2019 and 2018

| | As of June 30, | | | |
|---|---|---|---|---|
| | 2019 | | | 2018 |
| ASSETS | Water | Sewer | Total | Total |
| Current assets: | | | | |
| Cash and cash equivalents | $ 1,193,655 | $ 736,774 | $ 1,930,429 | $ 2,132,345 |
| Restricted cash and cash equivalents | 357,947 | 1,588,406 | 1,946,353 | 2,219,830 |
| Accounts receivable (net of allowance for uncollectible accounts) | 331,789 | 497,684 | 829,473 | 785,614 |
| Inventory of materials and supplies, at cost | 171,642 | 16,982 | 188,624 | 173,603 |
| Total current assets | $ 2,055,033 | $ 2,839,846 | $ 4,894,879 | $ 5,311,392 |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents - deposits held | $ 152,631 | $ 228,941 | $ 381,572 | $ 380,453 |
| Net pension asset | $ 177,407 | $ 266,111 | $ 443,518 | $ 477,110 |
| Capital assets: | | | | |
| Utility plant, lines, and accessories | $ 19,690,354 | $ 37,535,963 | $ 57,226,317 | $ 57,226,317 |
| Machinery and equipment | 410,090 | 615,134 | 1,025,224 | 995,370 |
| Accumulated depreciation | (12,426,106) | (11,123,982) | (23,550,088) | (21,699,952) |
| Sub-total net capital assets | $ 7,674,338 | $ 27,027,115 | $ 34,701,453 | $ 36,521,735 |
| Land | 53,400 | 80,100 | 133,500 | 133,500 |
| Construction in progress | - | 5,556,006 | 5,556,006 | 2,435,825 |
| Total net capital assets | $ 7,727,738 | $ 32,663,221 | $ 40,390,959 | $ 39,091,060 |
| Total noncurrent assets | $ 8,057,776 | $ 33,158,273 | $ 41,216,049 | $ 39,948,623 |
| Total assets | $ 10,112,809 | $ 35,998,119 | $ 46,110,928 | $ 45,260,015 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred charge on refunding | $ - | $ 52,030 | $ 52,030 | $ 56,729 |
| Pension related items | 66,079 | 99,118 | 165,197 | 138,674 |
| OPEB related items | 4,594 | 6,892 | 11,486 | 6,168 |
| Total deferred outflows of resources | $ 70,673 | $ 158,040 | $ 228,713 | $ 201,571 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 62,406 | $ 647,804 | $ 710,210 | $ 720,703 |
| Accrued interest payable | - | 104,596 | 104,596 | 63,023 |
| Customers' deposits | 127,766 | 191,648 | 319,414 | 304,322 |
| Compensated absences - current portion | 7,319 | 10,978 | 18,297 | 16,265 |
| Bonds and notes payable - current portion | 39,074 | 928,412 | 967,486 | 946,913 |
| Total current liabilities | $ 236,565 | $ 1,883,438 | $ 2,120,003 | $ 2,051,226 |
| Noncurrent liabilities: | | | | |
| Compensated absences - noncurrent portion | $ 65,870 | $ 98,805 | $ 164,675 | $ 146,386 |
| Net OPEB liabilities | 216,088 | 324,133 | 540,221 | 547,583 |
| Bonds and notes payable - noncurrent portion | 315,365 | 12,402,159 | 12,717,524 | 11,034,462 |
| Total noncurrent liabilities | $ 597,323 | $ 12,825,097 | $ 13,422,420 | $ 11,728,431 |
| Total liabilities | $ 833,888 | $ 14,708,535 | $ 15,542,423 | $ 13,779,657 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension related items | $ 35,625 | $ 53,437 | $ 89,062 | $ 116,696 |
| OPEB related items | 4,800 | 7,200 | 12,000 | 11,000 |
| Total deferred inflows of resources | $ 40,425 | $ 60,637 | $ 101,062 | $ 127,696 |
| NET POSITION | | | | |
| Net investment in capital assets | $ 7,373,299 | $ 19,384,680 | $ 26,757,979 | $ 27,109,685 |
| Unrestricted | 1,935,870 | 2,002,307 | 3,938,177 | 4,444,548 |
| Total net position | $ 9,309,169 | $ 21,386,987 | $ 30,696,156 | $ 31,554,233 |

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2019 and 2018

| | For the Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | | 2018 |
| | Water | Sewer | Total | Total |
| Operating revenues: | | | | |
| Water and sewer charges | $ 2,072,029 | $ 2,943,836 | $ 5,015,865 | $ 4,969,241 |
| Facility fees | 13,741 | 20,612 | 34,353 | 29,950 |
| Other revenues | 52,811 | 79,217 | 132,028 | 122,447 |
| Total operating revenues | $ 2,138,581 | $ 3,043,665 | $ 5,182,246 | $ 5,121,638 |
| Operating expenses: | | | | |
| Operations and maintenance | $ 1,525,349 | $ 1,885,184 | $ 3,410,533 | $ 3,272,337 |
| Administrative | 235,525 | 353,288 | 588,813 | 626,645 |
| Depreciation | 732,477 | 1,117,659 | 1,850,136 | 1,828,155 |
| Total operating expenses | $ 2,493,351 | $ 3,356,131 | $ 5,849,482 | $ 5,727,137 |
| Operating income (loss) | $ (354,770) | $ (312,466) | $ (667,236) | $ (605,499) |
| Nonoperating revenues (expenses): | | | | |
| Investment earnings | $ 16,802 | $ 25,203 | $ 42,005 | $ 23,206 |
| Tower rent | 8,898 | 13,347 | 22,245 | 20,277 |
| Contribution from participating governments | 49,064 | 73,595 | 122,659 | 122,013 |
| Other nonoperating revenues | - | - | - | 100,000 |
| Interest expense | (4,984) | (372,766) | (377,750) | (294,277) |
| Total nonoperating revenues (expenses) | $ 69,780 | $ (260,621) | $ (190,841) | $ (28,781) |
| Change in net position | $ (284,990) | $ (573,087) | $ (858,077) | $ (634,280) |
| Net position, beginning of year | 9,594,159 | 21,960,074 | 31,554,233 | 32,188,513 |
| Net position, end of year | $ 9,309,169 | $ 21,386,987 | $ 30,696,156 | $ 31,554,233 |

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

HALIFAX COUNTY SERVICE AUTHORITY

Exhibit 3

Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

| | For the Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | | 2018 |
| | Water | Sewer | Total | Total |
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | $ 2,127,077 | $ 3,026,402 | $ 5,153,479 | $ 5,098,354 |
| Payments to suppliers and vendors | (1,117,876) | (1,559,724) | (2,677,600) | (1,503,002) |
| Payments to and on behalf of employees | (632,366) | (704,573) | (1,336,939) | (1,284,109) |
| Net cash provided by (used for) operating activities | $ 376,835 | $ 762,105 | $ 1,138,940 | $ 2,311,243 |
| Cash flows from noncapital financing activities: | | | | |
| Contribution from participating governments | $ 49,064 | $ 73,595 | $ 122,659 | $ 122,013 |
| Net cash provided by (used for) noncapital financing activities | $ 49,064 | $ 73,595 | $ 122,659 | $ 122,013 |
| Cash flows from capital and related financing activities: | | | | |
| Additions to capital assets | $ (11,942) | $ (3,138,092) | $ (3,150,034) | $ (2,100,576) |
| Principal payments | (38,468) | (878,895) | (917,363) | (897,237) |
| Proceeds from indebtedness | - | 2,651,733 | 2,651,733 | 1,395,909 |
| Interest payments | (4,984) | (357,230) | (362,214) | (322,252) |
| Net cash provided by (used for) capital and related financing activities | $ (55,394) | $ (1,722,484) | $ (1,777,878) | $ (1,924,156) |
| Cash flows from investing activities: | | | | |
| Interest received | $ 16,802 | $ 25,203 | $ 42,005 | $ 23,206 |
| Net cash provided by (used for) investing activities | $ 16,802 | $ 25,203 | $ 42,005 | $ 23,206 |
| Increase (decrease) in cash and cash equivalents | $ 387,307 | $ (861,581) | $ (474,274) | $ 532,306 |
| Cash and cash equivalents at beginning of year, including restricted cash | 1,316,926 | 3,415,702 | 4,732,628 | 4,200,322 |
| Cash and cash equivalents at end of year, including restricted cash | $ 1,704,233 | $ 2,554,121 | $ 4,258,354 | $ 4,732,628 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | $ (354,770) | $ (312,466) | $ (667,236) | $ (605,499) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 732,477 | 1,117,659 | 1,850,136 | 1,828,155 |
| Tower rent | 8,898 | 13,347 | 22,245 | 20,277 |
| Other nonoperating revenues | - | - | - | 100,000 |
| Changes in operating assets, liabilities, deferred inflows and outflows: | | | | |
| (Increase) decrease in receivables | (17,541) | (26,318) | (43,859) | (23,284) |
| (Increase) decrease in due/to from Halifax County | - | - | - | - |
| (Increase) decrease in inventory | (15,021) | - | (15,021) | (16,949) |
| (Increase) decrease in prepaid items | - | - | - | 19,674 |
| (Increase) decrease in net pension asset | 13,437 | 20,155 | 33,592 | (196,082) |
| (Increase) decrease in deferred outflows of resources - pension | (10,609) | (15,914) | (26,523) | 73,059 |
| (Increase) decrease in deferred outflows of resources - OPEB | (2,127) | (3,191) | (5,318) | (168) |
| Increase (decrease) in payables | 21,523 | (32,016) | (10,493) | 555,729 |
| Increase (decrease) in customer deposits | 6,037 | 9,055 | 15,092 | 17,192 |
| Increase (decrease) in compensated absences | 8,129 | 12,192 | 20,321 | (1,565) |
| (Decrease) increase in net OPEB liabilities | (2,945) | (4,417) | (7,362) | 431,583 |
| Increase (decrease) in deferred inflows of resources - pension | (11,053) | (16,581) | (27,634) | 98,121 |
| Increase (decrease) in deferred inflows of resources - OPEB | 400 | 600 | 1,000 | 11,000 |
| Net cash provided by (used for) operating activities | $ 376,835 | $ 762,105 | $ 1,138,940 | $ 2,311,243 |

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

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## Note 1 - Summary of Significant Accounting Policies:

A. Formation of the Authority:

Halifax County Service Authority "the Authority" was created by the County of Halifax, Virginia on September 6, 1994 for the purpose of providing water and sewer service in Halifax County. The Authority was formed pursuant to the Virginia Water and Waste Water Authorities Act (Chapter 51), Title 15.2 of the 1950 Code of Virginia, as amended and has all of the rights, powers, and duties of an authority under the Act. On June 30, 2007 the County of Halifax and the Towns of South Boston and Halifax, Virginia entered into a comprehensive agreement to integrate the water and sewer infrastructure and operations by joining and participating in the Halifax County Service Authority. The three localities "political subdivisions" recognized the efficiencies of creating a regional approach to the provision of water and wastewater treatment. The comprehensive agreement provides that the Authority has the responsibility for establishing, imposing and collecting fees and charges sufficient to operate the system, pay principal and interest on any debt and satisfy any covenants contained in the financing documents entered into or assumed by the Authority. On January 1, 2008 the Authority commenced operations as a regional Authority.

B. Financial Reporting Entity:

The Authority's governing body is composed of seven directors. Replacement directors are nominated for appointment to the Board by the existing Authority Board members. The nominee must then be approved by the governing bodies of all three localities within 45 days. If rejected by any one locality, the Board must submit a new nominee for consideration. None of the localities appoints a voting majority of the directors.

The purposes for which the Authority is organized are to exercise all the powers granted to the Authority to acquire, finance, construct, operate, manage and maintain water, waste water, sewage disposal and storm water control systems and related facilities pursuant to the Virginia Water and Waste Water Authorities Act. No participating locality has access to the resources or surpluses, nor is any participant liable for the Authority's debts or deficits with the exception of the locality compensation agreement. The Authority is perpetual.

Based on the above representations, Halifax County Service Authority has been determined to be a jointly governed organization of the County of Halifax, Town of South Boston and Town of Halifax. The Authority is not a component unit of any of the participating localities. There are no component units to be included within the Authority's financial statements.

C. Basis of Accounting:

The Halifax County Service Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

## Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Basis of Accounting: (Continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services as well as producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Allowance for Doubtful Accounts:

Accounts receivable are stated at book value net of the allowance for uncollectible accounts. The allowance for uncollectible accounts amounted to $167,771 and $159,529 at June 30, 2019 and 2018, respectively.

E. Basic Financial Statements:

The Authority's financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

-- Management's Discussion and Analysis

-- Enterprise fund financial statements
  - Statements of Net Position
  - Statements of Revenues, Expenses, and Changes in Net Position
  - Statements of Cash Flows
  - Notes to Financial Statements

-- Required Supplementary Information
  - Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
  - Schedule of Employer Contributions - Pension
  - Notes to Required Supplementary Information - Pension
  - Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios - Health Insurance
  - Notes to Required Supplementary Information - Health Insurance
  - Schedule of Authority's Share of Net OPEB Liability - Group Life Insurance Plan
  - Schedule of Employer Contributions - Group Life Insurance Plan
  - Notes to Required Supplementary Information - Group Life Insurance Plan

F. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., pipes, hydrants, pumps, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The capital assets donated to the Authority by the organizing localities were valued by a consulting engineer.

## Note 1 - Summary of Significant Accounting Policies: (Continued)

F. Capital Assets: (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is treated as a nonoperating expense.

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

| Assets | Years |
|---|---|
| Utility plant, lines and accessories | 12 to 50 |
| Machinery and equipment | 5 to 15 |

G. Interest on Indebtedness:

All interest costs of the Authority are treated as nonoperating expenses.

H. Cash and Cash Equivalents:

The Authority's cash and cash equivalents consist of demand deposits, certificates of deposit, short-term U.S. Governmental obligations, and other investments with an original maturity of three months or less from the date of acquisition, all of which are readily convertible to known amounts of cash.

I. Investments:

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

J. Premiums/Discount on Bonds Held for Investment:

The premium/discounts paid on bonds held for investment are being amortized over the life of investment using the effective interest method.

K. Unamortized Deferred Charge on Refunding:

The deferred charge on refunding, resulting from the advance refunding of the Series 2011B Revenue Bonds is being amortized using the bonds outstanding method over the life of the Series 2011B Revenue Bonds, which is not materially different from the effective interest method. The current year amortization is included in interest expense.

## Note 5 - Pension Plan: (Continued)

### *Contributions (continued)*

The Authority's contractually required employer contribution rate for the year ended June 30, 2019 was 6.40% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $75,805 and $92,111 for the years ended June 30, 2019 and June 30, 2018, respectively.

### *Net Pension Asset*

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

### *Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 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.

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension assets.

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

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

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

**Note 5 - Pension Plan: (Continued)**

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

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related: (continued)

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

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

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

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

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

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:

Largest 10 - Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 20% |

**Note 5 - Pension Plan: (Continued)**

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

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

***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% |
| Total | 100.00% | | 4.80% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal 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%.

## Note 5 - 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; the Authority was also provided with an opportunity to use an alternative 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.

### *Changes in Net Pension Asset*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2017 | $ 1,784,267 | $ 2,261,377 | $ (477,110) |
| Changes for the year: | | | |
| Service cost | $ 156,371 | $ - | $ 156,371 |
| Interest | 120,398 | - | 120,398 |
| Differences between expected and actual experience | 74,456 | - | 74,456 |
| Contributions - employer | - | 92,109 | (92,109) |
| Contributions - employee | - | 56,980 | (56,980) |
| Net investment income | - | 170,105 | (170,105) |
| Benefit payments, including refunds of employee contributions | (128,604) | (128,604) | - |
| Administrative expenses | - | (1,409) | 1,409 |
| Other changes | - | (152) | 152 |
| Net changes | $ 222,621 | $ 189,029 | $ 33,592 |
| Balances at June 30, 2018 | $ 2,006,888 | $ 2,450,406 | $ (443,518) |

## Note 5 - Pension Plan: (Continued)

*Changes in Net Pension Asset: (Continued)*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2016 | $ 1,651,569 | $ 1,932,597 | $ (281,028) |
| Changes for the year: | | | |
| Service cost | $ 168,751 | $ - | $ 168,751 |
| Interest | 113,335 | - | 113,335 |
| Changes of assumptions | (78,378) | - | (78,378) |
| Differences between expected and actual experience | (6,010) | - | (6,010) |
| Contributions - employer | - | 94,402 | (94,402) |
| Contributions - employee | - | 58,580 | (58,580) |
| Net investment income | - | 242,303 | (242,303) |
| Benefit payments, including refunds of employee contributions | (65,000) | (65,000) | - |
| Administrative expenses | - | (1,284) | 1,284 |
| Other changes | - | (221) | 221 |
| Net changes | $ 132,698 | $ 328,780 | $ (196,082) |
| Balances at June 30, 2017 | $ 1,784,267 | $ 2,261,377 | $ (477,110) |

***Sensitivity of the Net Pension Asset to Changes in the Discount Rate as of June 30, 2019 and June 30, 2018***

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

| | Rate | | |
|---|---|---|---|
| **2019** | **1% Decrease (6.00%)** | **Current Discount (7.00%)** | **1% Increase (8.00%)** |
| Halifax County Service Authority Net Pension Liability (Asset) | $ (182,563) | $ (443,518) | $ (661,386) |

| | Rate | | |
|---|---|---|---|
| **2018** | **1% Decrease (6.00%)** | **Current Discount (7.00%)** | **1% Increase (8.00%)** |
| Halifax County Service Authority Net Pension Liability (Asset) | $ (244,736) | $ (477,110) | $ (671,081) |

**Note 5 - Pension Plan: (Continued)**

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

For the year ended June 30, 2019, the Authority recognized pension expense of $55,239. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 89,392 | $ 14,276 |
| Change of assumptions | - | 48,576 |
| Net difference between projected and actual earnings on pension plan investments | - | 26,210 |
| Employer contributions subsequent to the measurement date | 75,805 | - |
| Total | $ 165,197 | $ 89,062 |

For the year ended June 30, 2018, the Authority recognized pension expense of $67,205. At June 30, 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 |
|---|---|---|
| Differences between expected and actual experience | $ 46,563 | $ 19,430 |
| Change of assumptions | - | 63,477 |
| Net difference between projected and actual earnings on pension plan investments | - | 33,787 |
| Employer contributions subsequent to the measurement date | 92,111 | - |
| Total | $ 138,674 | $ 116,694 |

## Note 5 - Pension Plan: (Continued)

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

$75,805 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Asset in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | | |
|---|---|---|
| 2020 | $ | 14,880 |
| 2021 | | 2,705 |
| 2022 | | (27,027) |
| 2023 | | 8,172 |
| 2024 | | 1,600 |
| Thereafter | | - |

$92,111 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | | |
|---|---|---|
| 2019 | $ | (19,495) |
| 2020 | | 2,538 |
| 2021 | | (9,637) |
| 2022 | | (39,369) |
| 2023 | | (4,168) |
| Thereafter | | - |

***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 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 6 - Other Postemployment Benefits:

### Health Insurance:

***Plan Description***

In addition to the pension benefits described in Note 5, the Authority administers a single-employer defined benefit healthcare plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the Authority's pension plan. The plan does not issue a publicly available financial report.

## Note 6 - Other Postemployment Benefits: (Continued)

### Health Insurance: (Continued)

*Benefits Provided*

Participants who are eligible to retire from VRS pension plan are allowed access to the plan until they reach age 65. Retirees pay the blended (employees and retirees) published rate, however as they are older than the typical employee (and thus more expensive) there is a cost to this right to purchase insurance at the blended rate.

VRS retirement eligibility is age 50 with 10 years of service or age 55 with 5 years of service for employees hired prior to July 1, 2010 who were vested in the plan prior to July 1, 2013. VRS retirement eligibility is the earlier of age 60 with 5 of service or 90 combined age and service points for other employees.

*Plan Membership*

At June 30, 2019 and June 30, 2018, the following employees were covered by the benefit terms:

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Total active employees with coverage | 24 | 24 |
| Total retirees with coverage | 4 | 4 |
| Total | 28 | 28 |

*Contributions*

The Authority does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Authority. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2018 was $0.

*Total OPEB Liability*

The Authority's total OPEB liability was measured as of June 30, 2019. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019.

*Actuarial Assumptions*

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Salary Increases | 2.00% |
| Discount Rate | 3.46% |

## Note 6 - Other Postemployment Benefits: (Continued)

### Health Insurance: (Continued)

*Discount Rate*

The discount rate used to determine the liabilities is based on the 20-year tax exempt municipal bond yield. This rate was 3.46% as of June 30, 2019.

*Changes in Total OPEB Liability*

| | | Total OPEB Liability |
|---|---|---|
| Balances at June 30, 2018 | $ | 449,583 |
| Changes for the year: | | |
| Service cost | $ | 7,913 |
| Interest | | 17,614 |
| Difference between expected and actual experience | | (43,663) |
| Changes in assumptions | | 14,774 |
| Net changes | | (3,362) |
| Balances at June 30, 2019 | $ | 446,221 |

| | | Total OPEB Liability |
|---|---|---|
| Balances at June 30, 2017 | $ | - |
| Changes for the year: | | |
| Service cost | $ | 1 |
| Difference between expected and actual experience | | 356,955 |
| Changes in assumptions | | 92,627 |
| Net changes | | 449,583 |
| Balances at June 30, 2018 | $ | 449,583 |

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.46%) or 1 percentage point higher (4.46%) than the current discount rate:

| | | 1% Decrease (2.46%) | | Current Discount Rate (3.46%) | | 1% Increase (4.46%) |
|---|---|---|---|---|---|---|
| June 30, 2019 | $ | 489,752 | $ | 446,221 | $ | 410,406 |

| | | 1% Decrease (2.85%) | | Current Discount Rate (3.85%) | | 1% Increase (4.85%) |
|---|---|---|---|---|---|---|
| June 30, 2018 | $ | 490,855 | $ | 449,583 | $ | 415,018 |

## Note 6 - Other Postemployment Benefits: (Continued)

### Health Insurance: (Continued)

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

The following presents the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

| | 1% Decrease (3.70%), (5.20%), (2.0%), (2.0%) | Healthcare Cost Trend Rates* (4.70%), (6.20%), (3.0%), (3.0%) | 1% Increase (5.70%), (7.20%), (4.0%), (4.0%) |
|---|---|---|---|
| June 30, 2019 | $ 399,618 | $ 446,221 | $ 503,739 |

* Healthcare cost trend rates as of June 30, 2019 were: Medical - 4.70%, Pharmacy - 6.20%, Dental - 3.00%, Vision - 3.00%

| | 1% Decrease (3.60%), (6.60%), (2.5%), (2.0%) | Healthcare Cost Trend Rates* (4.60%), (7.60%), (3.5%), (3.0%) | 1% Increase (5.60%), (8.60%), (4.5%), (4.0%) |
|---|---|---|---|
| June 30, 2018 | $ 408,270 | $ 449,583 | $ 499,727 |

* Healthcare cost trend rates as of June 30, 2018 were: Medical - 4.60%, Pharmacy - 7.60%, Dental - 3.50%, Vision - 3.00%

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

For the years ended June 30, 2019 and June 30, 2018, the Authority recognized OPEB expense in the amount of ($3,362) and $449,583, respectively. At June 30, 2019 and June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB of $0.

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

### Group Life Insurance (GLI) Plan (OPEB Plan)

*Plan Description*

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

## Note 6 - Other Postemployment Benefits: (Continued)

## Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

### *Plan Description: (Continued)*

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

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

### *Eligible Employees*

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

### *Benefit Amounts*

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to $8,279 effective July 1, 2018.

### *Contributions*

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 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. Contributions to the Group Life Insurance Plan from the entity were $6,486 and $6,168 for the years ended June 30, 2019 and June 30, 2018, respectively.

## Note 6 - Other Postemployment Benefits: (Continued)

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

At June 30, 2019 and 2018, the entity reported a liability of $94,000 and $98,000, respectively, 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 Plan 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 .00624% as compared to .00651% at June 30, 2017.

For the year ended June 30, 2019 and 2018, the participating employer recognized GLI OPEB expense of $0 and ($1,000), respectively.

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 |
|---|---|---|
| Differences between expected and actual experience | $ 5,000 | $ 2,000 |
| Net difference between projected and actual earnings on GLI OPEB plan investments | - | 3,000 |
| Change in assumptions | - | 4,000 |
| Changes in proportion | - | 3,000 |
| Employer contributions subsequent to the measurement date | 6,486 | - |
| Total | $ 11,486 | $ 12,000 |

At June 30, 2018, 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 |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 2,000 |
| Net difference between projected and actual earnings on GLI OPEB plan investments | - | 4,000 |
| Change in assumptions | - | 5,000 |
| Employer contributions subsequent to the measurement date | 6,168 | - |
| Total | $ 6,168 | $ 11,000 |

**Note 6 - Other Postemployment Benefits: (Continued)**

**Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**

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

$6,486 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 | | |
|---|---|---|
| 2020 | $ | (2,000) |
| 2021 | | (2,000) |
| 2022 | | (2,000) |
| 2023 | | (1,000) |
| 2024 | | - |
| Thereafter | | - |

$6,168 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, 2019. 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 | $ | (2,000) |
| 2020 | | (2,000) |
| 2021 | | (2,000) |
| 2022 | | (2,000) |
| 2023 | | (1,000) |
| Thereafter | | (2,000) |

*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. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

## Note 6 - Other Postemployment Benefits: (Continued)

## Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

### *Actuarial Assumptions: (Continued)*

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| General state employees | 3.5% - 5.35% |
| Teachers | 3.5%-5.95% |
| SPORS employees | 3.5%-4.75% |
| VaLORS employees | 3.5%-4.75% |
| JRS employees | 4.5% |
| Locality - General employees | 3.5%-5.35% |
| Locality - Hazardous Duty employees | 3.5%-4.75% |
| Investment rate of return | 7.0%, 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 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

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

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

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

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

## Note 6 - Other Postemployment Benefits: (Continued)

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

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

The actuarial assumptions used in the June 30, 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% |

*NET GLI OPEB Liability*

The net OPEB liability (NOL) for the Group Life Insurance Plan 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, 2018 and 2017, NOL amounts for the Group Life Insurance Plan is as follows (amounts expressed in thousands):

| | Group Life Insurance OPEB Plan 2018 | Group Life Insurance OPEB Plan 2017 |
|---|---|---|
| Total GLI OPEB Liability | $ 3,113,508 | $ 2,942,426 |
| Plan Fiduciary Net Position | 1,594,773 | 1,437,586 |
| Employers' Net GLI OPEB Liability (Asset) | $ 1,518,735 | $ 1,504,840 |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 51.22% | 48.86% |

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.

## Note 6 - Other Postemployment Benefits: (Continued)

## Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

### *Long-Term Expected Rate of Return*

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

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return |
|---|---|---|---|
| Public Equity | 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% |

*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%.

### *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 ended 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.

## Note 6 - Other Postemployment Benefits: (Continued)

### Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

The follow 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:

| 2019 | Rate: 1% Decrease (6.00%) | Rate: Current Discount (7.00%) | Rate: 1% Increase (8.00%) |
|---|---|---|---|
| Authority's proportionate share of the Group Life Insurance Plan Net OPEB Liability | $ 123,000 | $ 94,000 | $ 71,000 |

| 2018 | Rate: 1% Decrease (6.00%) | Rate: Current Discount (7.00%) | Rate: 1% Increase (8.00%) |
|---|---|---|---|
| Authority's proportionate share of the Group Life Insurance Plan Net OPEB Liability | $ 126,000 | $ 98,000 | $ 74,000 |

***Group Life Insurance Plan Fiduciary Net Position***

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 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.

***OPEB Aggregate Totals***

| 2019 | Halifax County Service Authority: Deferred Outflows | Deferred Inflows | Net OPEB Liability | OPEB Expense |
|---|---|---|---|---|
| VRS OPEB Plans: | | | | |
| Group Life Insurance Plan (Note 6): | $ 11,486 | $ 12,000 | $ 94,000 | $ - |
| Authority's Stand-Alone Plan (Note 6) | - | - | 446,221 | (3,362) |
| Totals | $ 11,486 | $ 12,000 | $ 540,221 | $ (3,362) |

| 2018 | Halifax County Service Authority: Deferred Outflows | Deferred Inflows | Net OPEB Liability | OPEB Expense |
|---|---|---|---|---|
| VRS OPEB Plans: | | | | |
| Group Life Insurance Plan (Note 6): | $ 6,168 | $ 11,000 | $ 98,000 | $ (1,000) |
| Authority's Stand-Alone Plan (Note 6) | - | - | 449,583 | 449,583 |
| Totals | $ 6,168 | $ 11,000 | $ 547,583 | $ 448,583 |

## Note 7 - 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. The Authority joined together with other local governments in the Commonwealth to form the Virginia Municipal League Self Insurance Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers' compensation, general liability, automobile liability, property, crime and public officials' insurance coverages. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

## Note 8 - Commitments and Contingencies:

Authority officials estimate that no claims, not covered by insurance, would have a material effect on the Authority's financial position.

## Note 9 - Upcoming Pronouncements:

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

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

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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

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

## Note 9 - Upcoming Pronouncements: (Continued)

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

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

## Note 10 - Adoption of Accounting Principles:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

The Authority early implemented provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* during the fiscal year ended June 30, 2019. This Statement simplifies accounting for interest cost incurred before the end of a construction period. Interest cost incurred during construction is expensed and no longer capitalized as part of project costs. No restatement was required as a result of this implementation.

- Required Supplementary Information -

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## HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
For the Measurement Dates of June 30, 2014 through June 30, 2018

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Total pension liability** | | | | | |
| Service cost | $ 156,371 | $ 168,751 | $ 176,747 | $ 179,591 | $ 198,052 |
| Interest | 120,398 | 113,335 | 99,639 | 77,314 | 60,484 |
| Differences between expected and actual experience | 74,456 | (6,010) | (22,587) | 97,731 | - |
| Changes of assumptions | - | (78,378) | - | - | - |
| Benefit payments, including refunds of employee contributions | (128,604) | (65,000) | (51,278) | (20,145) | (16,073) |
| **Net change in total pension liability** | $ 222,621 | $ 132,698 | $ 202,521 | $ 334,491 | $ 242,463 |
| **Total pension liability - beginning** | 1,784,267 | 1,651,569 | 1,449,048 | 1,114,557 | 872,094 |
| **Total pension liability - ending (a)** | $ 2,006,888 | $ 1,784,267 | $ 1,651,569 | $ 1,449,048 | $ 1,114,557 |
| | | | | | |
| **Plan fiduciary net position** | | | | | |
| Contributions - employer | $ 92,109 | $ 94,402 | $ 118,144 | $ 117,501 | $ 148,496 |
| Contributions - employee | 56,980 | 58,580 | 58,181 | 57,974 | 56,472 |
| Net investment income | 170,105 | 242,303 | 34,671 | 75,638 | 197,809 |
| Benefit payments, including refunds of employee contributions | (128,604) | (65,000) | (51,278) | (20,145) | (16,073) |
| Administrative expense | (1,409) | (1,284) | (1,023) | (864) | (900) |
| Other | (152) | (221) | (14) | (16) | 10 |
| **Net change in plan fiduciary net position** | $ 189,029 | $ 328,780 | $ 158,681 | $ 230,088 | $ 385,814 |
| **Plan fiduciary net position - beginning** | 2,261,377 | 1,932,597 | 1,773,916 | 1,543,828 | 1,158,014 |
| **Plan fiduciary net position - ending (b)** | $ 2,450,406 | $ 2,261,377 | $ 1,932,597 | $ 1,773,916 | $ 1,543,828 |
| | | | | | |
| **Authority's net pension (asset) liability - ending (a) - (b)** | $ (443,518) | $ (477,110) | $ (281,028) | $ (324,868) | $ (429,271) |
| | | | | | |
| **Plan fiduciary net position as a percentage of the total pension (asset) liability** | 122.10% | 126.74% | 117.02% | 122.42% | 138.51% |
| | | | | | |
| **Covered payroll** | $ 1,186,189 | $ 1,201,582 | $ 1,180,408 | $ 1,171,823 | $ 1,129,817 |
| | | | | | |
| **Authority's net pension (asset) liability as a percentage of covered payroll** | -37.39% | -39.71% | -23.81% | -27.72% | -37.99% |

This schedule is intended to report information for 10 years. Information prior to the 2014 valuation is not available. Additional years will be included when available.

## HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions - Pension
For the Years Ended June 30, 2010 through June 30, 2019

| Fiscal Year | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Employee Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2010 | $ 91,554 | $ 91,554 | $ - | $ 1,047,527 | 8.74% |
| 2011 | 134,457 | 134,457 | - | 1,055,395 | 12.74% |
| 2012 | 136,215 | 136,215 | - | 1,069,194 | 12.74% |
| 2013 | 151,915 | 151,915 | - | 1,154,372 | 13.16% |
| 2014 | 148,684 | 148,684 | - | 1,129,817 | 13.16% |
| 2015 | 118,120 | 118,120 | - | 1,171,823 | 10.08% |
| 2016 | 118,985 | 118,985 | - | 1,180,408 | 10.08% |
| 2017 | 94,404 | 94,404 | - | 1,201,582 | 7.86% |
| 2018 | 92,111 | 92,111 | - | 1,186,189 | 7.77% |
| 2019 | 75,805 | 75,805 | - | 1,247,317 | 6.08% |

**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-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 20% |

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

## HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios - Health Insurance
For the Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Total OPEB liability** | | |
| Service cost | $ 7,913 | $ 1 |
| Interest | 17,614 | - |
| Changes in assumptions | 14,774 | 92,627 |
| Differences between expected and actual experience | (43,663) | 356,955 |
| Benefit payments | - | - |
| **Net change in total OPEB liability** | $ (3,362) | $ 449,583 |
| **Total OPEB liability - beginning** | 449,583 | - |
| **Total OPEB liability - ending** | $ 446,221 | $ 449,583 |
| **Covered payroll** | $ N/A | $ N/A |
| **Authority's total OPEB liability (asset) as a percentage of covered payroll** | N/A | N/A |

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

## HALIFAX COUNTY SERVICE AUTHORITY

Notes to Required Supplementary Information - Health Insurance
For the Year Ended June 30, 2019

Valuation Date: June 30, 2019
Measurement Date: June 30, 2019

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

*Methods and assumptions used to determine OPEB liability:*

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal cost method |
| Discount Rate | 3.46% |
| Inflation | 0% |
| Healthcare Trend Rate | Medical healthcare trend rate of 4.70%; Pharmacy healthcare trend rate of 6.20%; Dental healthcare trend rate of 3.00%; Vision healthcare trend rate of 3.00% |
| Salary Increase Rates | 2.00% |
| Mortality Rates | The mortality rates for active and healthy retirees was calculated using the RP-2000 Mortality Table for Males and Females Projected 18 years. |

## HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Authority's Share of Net OPEB Liability
Group Life Insurance Plan
For the Measurement Dates of June 30, 2018 and 2017

| Date (1) | Employer's Proportion of of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---|---|---|---|---|---|
| 2017 | 0.00651% | $ 98,000 | $ 1,201,582 | 8.16% | 48.86% |
| 2018 | 0.00624% | 94,000 | 1,186,189 | 7.92% | 51.22% |

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

## HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions
Group Life Insurance Plan
For the Years Ended June 30, 2017 through June 30, 2019

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2017 | $ 6,248 | $ 6,248 | $ - | $ 1,201,582 | 1% |
| 2018 | 6,168 | 6,168 | - | 1,186,189 | 1% |
| 2019 | 6,486 | 6,486 | - | 1,247,317 | 1% |

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

Notes to Required Supplementary Information
Group Life Insurance Plan
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 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% |

# - Compliance Section -

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

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

**To the Board of Directors**
**Halifax County Service Authority**
**South Boston, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Halifax County Service Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Halifax County Service Authority's basic financial statements and have issued our report thereon dated August 25, 2020.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Halifax 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 Halifax County Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Halifax 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 Halifax County Service Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 25, 2020

ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

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

**To the Board of Directors**
**Halifax County Service Authority**
**South Boston, Virginia**

### Report on Compliance for Each Major Federal Program

We have audited the Halifax County Service Authority's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Halifax County Service Authority's major federal programs for the year ended June 30, 2019. Halifax County Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

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

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

#### *Opinion on Each Major Federal Program*

In our opinion, the Halifax County Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 25, 2020

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

| Federal Grantor/ Pass-through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **Department of Agriculture - Rural Utilities Service** | | | |
| Direct Payments: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | $ 3,114,493 |
| Total expenditures of federal awards | | | $ 3,114,493 |

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal award activity of the Halifax County Service Authority under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Halifax County Service Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Halifax County Service Authority.

**Note 2 - Summary of Significant Accounting Policies**

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

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

**Note 3 - Indirect Cost Rate**

The Authority did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform

**Note 4 - Subrecepients**

No awards were passed through to subrecipients.

**Note 5 - Relationship to Financial Statements**

| | |
|---|---|
| Temporary loan financing - anticipation of federal grant | $ 2,651,733 |
| Add: Expenditures for which interim financing has not yet been drawn | 462,760 |
| Total federal expenditures per the Schedule of Expenditures of Federal Awards | $ 3,114,493 |

**Note 6 - Loan Balances**

The Authority has a temporary loan outstanding in anticipation of federal grant funding in the amount of $4,047,643.

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

## Section I - Summary of Auditors' Results

### *Financial Statements*

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

### *Federal Awards*

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

Identification of major programs:

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

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $750,000 |
| Auditee qualified as low-risk auditee? | No |

## Section II - Financial Statement Findings

There are no financial statement findings to report.

## Section III - Federal Award Findings and Questioned Costs

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

## Section IV - Prior Year Findings and Questioned Costs

There are no prior year findings or questioned costs to report.