

**HALIFAX COUNTY SERVICE AUTHORITY
SOUTH BOSTON, VIRGINIA**

**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2021**

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- Introductory Section -

HALIFAX COUNTY SERVICE AUTHORITY

MEMBERS

Gray Ramsey, Chairman

Katherine D.S. Bane, Vice-Chairman

Fields Thomas

Mark Thackston

George Leonard

Kelly Phillips

Latonya Hamilton

OFFICIALS

Mark Estes, Executive Director

- Financial Section -



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

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 year ended June 30, 2021, 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, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding as listed in the table of contents 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 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.

Report on Summarized Comparative Information

We have previously audited Halifax County Service Authority's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 17, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2023, 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.

Charlottesville, Virginia
February 17, 2023

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, 2021 and 2020.

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.

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 10 through 39 of this report.

Required Supplementary Information

This report also includes required supplementary information concerning the Authority's progress in funding its obligation to provide pension and other postemployment benefits to its employees. It is located immediately following the notes to the financial statements.

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 \$28,920,366 (net position). Of this amount, \$2,188,821 (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.

Restricted net position

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law. The Authority's restricted net position is comprised of the net pension asset and restricted cash related to bond covenants.

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

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

		Net Position	
		2021	2020
Current and other assets	\$	6,091,699	\$ 3,790,178
Capital assets		<u>39,444,677</u>	<u>40,039,200</u>
Total assets	\$	<u>45,536,376</u>	<u>\$ 43,829,378</u>
Deferred outflows of resources	\$	<u>579,816</u>	<u>\$ 509,686</u>
Long-term liabilities	\$	14,837,080	\$ 13,022,760
Other liabilities		<u>2,329,115</u>	<u>1,357,231</u>
Total liabilities	\$	<u>17,166,195</u>	<u>\$ 14,379,991</u>
Deferred inflows of resources	\$	<u>29,631</u>	<u>\$ 72,299</u>
Net position:			
Net investment in capital assets	\$	24,102,384	\$ 26,517,416
Restricted		2,629,161	1,066,256
Unrestricted		<u>2,188,821</u>	<u>2,303,102</u>
Total net position	\$	<u>28,920,366</u>	<u>\$ 29,886,774</u>

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.

	Change in Net Position	
	2021	2020
Revenues:		
Operating revenues	\$ 5,198,338	\$ 4,863,518
Contribution from participating governments	118,594	118,378
Other nonoperating revenue	56,970	244,783
Investment income	9,117	18,911
Total revenues	<u>\$ 5,383,019</u>	<u>\$ 5,245,590</u>
Expenses:		
Operating expenses (excluding depreciation)	\$ 3,848,720	\$ 3,708,792
Depreciation expense	2,144,251	2,002,131
Interest expense	356,456	344,049
Total expenses	<u>\$ 6,349,427</u>	<u>\$ 6,054,972</u>
Increase (decrease) in net position	\$ (966,408)	\$ (809,382)
Net position-beginning	<u>29,886,774</u>	<u>30,696,156</u>
Net position-ending	<u><u>\$ 28,920,366</u></u>	<u><u>\$ 29,886,774</u></u>

Operating and nonoperating revenues

Operating revenues consist of charges and fees related to providing water and sewer services to customers. Nonoperating revenues consists of contributions from participating governments, investment income, and other revenues that are not derived from providing customers with water and sewer services.

Operating revenues increased from 2020 to 2021 by \$334,820 (6.88%) due to an increase in usage. Operating revenues decreased from 2019 to 2020 by 318,728 (6.2%) due to a decrease in usage. Nonoperating revenues decreased from 2020 to 2021 by \$197,391 (51.7%) due to a decrease in grant revenue. Nonoperating revenues increased from 2019 to 2020 by \$195,163 (104.4%) due to an increase in grant revenue.

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. Operating expenses increased from 2020 to 2021 by \$139,928 (3.8%) and decreased from 2019 to 2020 by \$290,554 (7.3%). Other expenses increased from 2020 to 2021 by \$154,527 (6.69%) and increased from 2019 to 2020 by \$118,294 (5.3%). These changes are attributed to general changes in various costs.

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, 2021 and 2020.

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Capital assets not being depreciated		
Land	\$ 133,500	\$ 133,500
Construction in progress	1,587,080	90,430
Total capital assets not being depreciated	<u>\$ 1,720,580</u>	<u>\$ 223,930</u>
 Capital assets being depreciated		
Utility plant lines and accessories	\$ 63,980,397	\$ 63,980,397
Vehicles and equipment	1,440,170	1,387,092
Total assets being depreciated	<u>\$ 65,420,567</u>	<u>\$ 65,367,489</u>
 Less: Accumulated depreciation	<u>(27,696,470)</u>	<u>(25,552,219)</u>
 Capital assets being depreciated, net	<u>\$ 37,724,097</u>	<u>\$ 39,815,270</u>
 Net capital assets	<u><u>\$ 39,444,677</u></u>	<u><u>\$ 40,039,200</u></u>

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 compensated absences 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 \$15,144,365 in bonds and notes outstanding. The Authority also had \$189,788 in compensated absences, \$185,395 in net pension liability and \$103,635 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 -

Statements of Net Position
As of June 30, 2021

	As of June 30,			
	2021			2020
	Water	Sewer	Total	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,390,060	\$ -	\$ 2,390,060	\$ 1,755,579
Accounts receivable (net of allowance for uncollectible accounts)	193,591	290,387	483,978	453,015
Inventory of materials and supplies, at cost	205,257	20,644	225,901	167,921
Total current assets	\$ 2,788,908	\$ 311,031	\$ 3,099,939	\$ 2,376,515
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	\$ 1,196,704	\$ 1,795,056	\$ 2,991,760	\$ 1,354,981
Net pension asset	-	-	-	58,682
Total restricted assets	\$ 1,196,704	\$ 1,795,056	\$ 2,991,760	\$ 1,413,663
Capital assets:				
Utility plant, lines, and accessories	\$ 19,850,946	\$ 44,129,451	\$ 63,980,397	\$ 63,980,397
Machinery and equipment	576,068	864,102	1,440,170	1,387,092
Accumulated depreciation	(13,950,107)	(13,746,363)	(27,696,470)	(25,552,219)
Sub-total net capital assets	\$ 6,476,907	\$ 31,247,190	\$ 37,724,097	\$ 39,815,270
Land	53,400	80,100	133,500	133,500
Construction in progress	1,472,085	114,995	1,587,080	90,430
Total net capital assets	\$ 8,002,392	\$ 31,442,285	\$ 39,444,677	\$ 40,039,200
Total noncurrent assets	\$ 9,199,096	\$ 33,237,341	\$ 42,436,437	\$ 41,452,863
Total assets	\$ 11,988,004	\$ 33,548,372	\$ 45,536,376	\$ 43,829,378
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ -	\$ 42,633	\$ 42,633	\$ 47,332
Pension related items	205,603	308,460	514,063	440,687
OPEB related items	9,247	13,873	23,120	21,667
Total deferred outflows of resources	\$ 214,850	\$ 364,966	\$ 579,816	\$ 509,686
LIABILITIES				
Current liabilities:				
Reconciled overdraft	\$ -	\$ 722,334	\$ 722,334	\$ -
Accounts payable	69,789	203,143	272,932	199,784
Retainage payable	-	68,801	68,801	148,120
Accrued interest payable	-	116,346	116,346	89,860
Customers' deposits	145,040	217,559	362,599	347,407
Compensated absences - current portion	7,592	11,387	18,979	18,250
Bonds and notes payable - current portion	186,290	580,834	767,124	553,810
Total current liabilities	\$ 408,711	\$ 1,920,404	\$ 2,329,115	\$ 1,357,231
Noncurrent liabilities:				
Compensated absences - noncurrent portion	\$ 68,323	\$ 102,486	\$ 170,809	\$ 164,249
Net pension liability	74,158	111,237	185,395	-
Net OPEB liabilities	41,454	62,181	103,635	140,828
Bonds and notes payable - noncurrent portion	2,517,539	11,859,702	14,377,241	12,717,683
Total noncurrent liabilities	\$ 2,701,474	\$ 12,135,606	\$ 14,837,080	\$ 13,022,760
Total liabilities	\$ 3,110,185	\$ 14,056,010	\$ 17,166,195	\$ 14,379,991
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 9,096	\$ 13,643	\$ 22,739	\$ 63,268
OPEB related items	2,757	4,135	6,892	9,031
Total deferred inflows of resources	\$ 11,853	\$ 17,778	\$ 29,631	\$ 72,299
NET POSITION				
Net investment in capital assets	\$ 5,298,563	\$ 18,803,821	\$ 24,102,384	\$ 26,517,416
Restricted for:				
Net pension asset	-	-	-	58,682
Bond covenants	1,051,664	1,577,497	2,629,161	1,007,574
Unrestricted	2,730,589	(541,768)	2,188,821	2,303,102
Total net position	\$ 9,080,816	\$ 19,839,550	\$ 28,920,366	\$ 29,886,774

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

	For the Year Ended June 30,			
	2021			2020
	Water	Sewer	Total	Total
Operating revenues:				
Water and sewer charges	\$ 2,154,470	\$ 2,970,697	\$ 5,125,167	\$ 4,730,118
Facility fees	23,522	35,284	58,806	35,750
Other revenues	5,746	8,619	14,365	97,650
Total operating revenues	\$ 2,183,738	\$ 3,014,600	\$ 5,198,338	\$ 4,863,518
Operating expenses:				
Operations and maintenance	\$ 1,352,085	\$ 1,850,096	\$ 3,202,181	\$ 3,101,617
Administrative	258,616	387,923	646,539	607,175
Depreciation	762,113	1,382,138	2,144,251	2,002,131
Total operating expenses	\$ 2,372,814	\$ 3,620,157	\$ 5,992,971	\$ 5,710,923
Operating income (loss)	\$ (189,076)	\$ (605,557)	\$ (794,633)	\$ (847,405)
Nonoperating revenues (expenses):				
Investment earnings	\$ 3,647	\$ 5,470	\$ 9,117	\$ 18,911
Tower rent	12,788	19,182	31,970	44,333
Contribution from participating governments	47,438	71,156	118,594	118,378
Other nonoperating revenues	10,000	15,000	25,000	200,450
Interest expense	(27,961)	(328,495)	(356,456)	(344,049)
Total nonoperating revenues (expenses)	\$ 45,912	\$ (217,687)	\$ (171,775)	\$ 38,023
Change in net position	\$ (143,164)	\$ (823,244)	\$ (966,408)	\$ (809,382)
Net position, beginning of year	9,223,980	20,662,794	29,886,774	30,696,156
Net position, end of year	\$ 9,080,816	\$ 19,839,550	\$ 28,920,366	\$ 29,886,774

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

Statements of Cash Flows
For the Year Ended June 30, 2021

	For the Year Ended June 30,			
	2021			2020
	Water	Sewer	Total	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,177,430	\$ 3,005,137	\$ 5,182,567	\$ 5,267,969
Payments to suppliers and vendors	(931,462)	(1,445,730)	(2,377,192)	(3,225,760)
Payments to and on behalf of employees	(649,488)	(700,483)	(1,349,971)	(1,407,389)
Net cash provided by (used for) operating activities	\$ 596,480	\$ 858,924	\$ 1,455,404	\$ 634,820
Cash flows from noncapital financing activities:				
Contribution from participating governments	\$ 47,438	\$ 71,156	\$ 118,594	\$ 118,378
Nonoperating revenue	10,000	15,000	25,000	200,450
Net cash provided by (used for) noncapital financing activities	\$ 57,438	\$ 86,156	\$ 143,594	\$ 318,828
Cash flows from capital and related financing activities:				
Additions to capital assets	\$ (1,573,813)	\$ (32,977)	\$ (1,606,790)	\$ (1,352,749)
Principal payments	(111,955)	(491,230)	(603,185)	(5,448,758)
Proceeds from indebtedness	2,500,000	-	2,500,000	5,062,759
Interest payments	(27,961)	(321,253)	(349,214)	(381,605)
Net cash provided by (used for) capital and related financing activities	\$ 786,271	\$ (845,460)	\$ (59,189)	\$ (2,120,353)
Cash flows from investing activities:				
Interest received	\$ 3,647	\$ 5,470	\$ 9,117	\$ 18,911
Net cash provided by (used for) investing activities	\$ 3,647	\$ 5,470	\$ 9,117	\$ 18,911
Increase (decrease) in cash and cash equivalents	\$ 1,443,836	\$ 105,090	\$ 1,548,926	\$ (1,147,794)
Cash and cash equivalents at beginning of year, including restricted cash	2,142,928	967,632	3,110,560	4,258,354
Cash and cash equivalents at end of year, including restricted cash	\$ 3,586,764	\$ 1,072,722	\$ 4,659,486	\$ 3,110,560
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (189,076)	\$ (605,557)	\$ (794,633)	\$ (847,405)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	762,113	1,382,138	2,144,251	2,002,131
Tower rent	12,788	19,182	31,970	44,333
Changes in operating assets, liabilities, deferred inflows and outflows:				
(Increase) decrease in receivables	(12,385)	(18,578)	(30,963)	376,458
(Increase) decrease in due/to from Halifax County	-	-	-	-
(Increase) decrease in inventory	(50,736)	(7,244)	(57,980)	20,703
(Increase) decrease in prepaid items	-	-	-	-
(Increase) decrease in net pension asset	23,473	35,209	58,682	384,836
(Increase) decrease in deferred outflows of resources - pension	(29,328)	(44,048)	(73,376)	(275,490)
(Increase) decrease in deferred outflows of resources - OPEB	(580)	(873)	(1,453)	(10,181)
Increase (decrease) in payables	19,508	31,383	50,891	(659,929)
Increase (decrease) in customer deposits	6,077	9,115	15,192	27,993
Increase (decrease) in compensated absences	12,411	(5,122)	7,289	(473)
Increase (decrease) in net pension liability	74,158	111,237	185,395	-
Increase (decrease) in net OPEB liabilities	(14,877)	(22,316)	(37,193)	(399,393)
Increase (decrease) in deferred inflows of resources - pension	(16,211)	(24,318)	(40,529)	(25,794)
Increase (decrease) in deferred inflows of resources - OPEB	(855)	(1,284)	(2,139)	(2,969)
Net cash provided by (used for) operating activities	\$ 596,480	\$ 858,924	\$ 1,455,404	\$ 634,820
Noncash investing, capital and financing activities:				
Unpaid capital asset additions	\$ -	\$ 171,760	\$ 171,760	\$ 149,503

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021

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 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, wastewater, sewage disposal and storm water control systems and related facilities pursuant to the Virginia Water and Waste 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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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 \$270,559 at June 30, 2021.

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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

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.

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.

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

<u>Assets</u>	<u>Years</u>
Utility plant, lines and accessories	12 to 50
Machinery and equipment	5 to 15

F. Interest on Indebtedness:

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

G. 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.

H. 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.

I. 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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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

J. 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.

K. Budgets and Budgetary Accounting:

A budget is prepared for informational purposes, fiscal planning purposes, and to provide the basis for setting user rates. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses. The Authority adopts annual budgets for water service revenues and Operating Fund expenditures. The budgets are prepared on the basis of expected cash receipts and disbursements rather than on the accrual basis.

L. Inventory:

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. Inventory was valued at \$225,901 at June 30, 2021.

M. Use of Estimates:

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

N. Net Position:

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

P. Net Position Flow Assumption:

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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

Q. Deferred Outflows/Inflows of Resources:

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

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

R. Long-term Obligations:

The Authority assumed existing revenue and general obligation bonds of both the County of Halifax and the Towns of South Boston and Halifax upon the formation of the Authority. Additionally, the Authority assumed a note payable to the Town of South Boston for a “negative cash payment.” The obligation will be paid to the Town of South Boston in accordance with the comprehensive agreement.

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

S. Compensated Absences:

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee’s current wage upon retirement or termination.

T. Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority’s Retirement Plan and the additions to/deductions from the Authority’s Retirement Plan’s net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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

U. Other Postemployment Benefits (OPEB):

Group Life Insurance

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

Note 2 - Deposits and Investments:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments):

To protect the Authority against potential fraud, the investment policy states that the assets of the Authority shall be secured through third-party custody and safe-keeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery vs. payment procedure.

The Authority's investments at June 30, 2020 were held by the Authority or in the Authority's name by the Authority's custodial banks.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 133,500	\$ -	\$ -	\$ 133,500
Construction in progress	90,430	1,496,650	-	1,587,080
Total capital assets, not being depreciated	\$ 223,930	\$ 1,496,650	\$ -	\$ 1,720,580
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 63,980,397	\$ -	\$ -	\$ 63,980,397
Machinery and equipment	1,387,092	53,078	-	1,440,170
Total capital assets, being depreciated	\$ 65,367,489	\$ 53,078	\$ -	\$ 65,420,567
Accumulated depreciation:				
Utility plant, lines and accessories	\$ (24,721,619)	\$ (2,018,289)	\$ -	\$ (26,739,908)
Machinery and equipment	(830,600)	(125,962)	-	(956,562)
Total accumulated depreciation	\$ (25,552,219)	\$ (2,144,251)	\$ -	\$ (27,696,470)
Capital assets, being depreciated, net	\$ 39,815,270	\$ (2,091,173)	\$ -	\$ 37,724,097
Capital assets, net	\$ 40,039,200	\$ (594,523)	\$ -	\$ 39,444,677

Note 4 - Long-term Obligations:

Changes in long-term obligations for the year ended June 30, 2021 were as follows:

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Direct borrowings and direct placements:					
Bonds payable	\$ 12,294,382	\$ -	\$ 431,229	\$ 11,863,153	\$ 500,371
Premium on bond issue	187,651	-	23,943	163,708	19,927
Notes payable	789,460	2,500,000	171,956	3,117,504	246,826
Total direct borrowings and direct placements	\$ 13,271,493	\$ 2,500,000	\$ 627,128	\$ 15,144,365	\$ 767,124
Compensated absences	182,499	7,289	-	189,788	18,979
Net pension liability	-	369,818	184,423	185,395	-
Net OPEB liabilities	140,828	257,009	294,202	103,635	-
Total	\$ 13,594,820	\$ 3,134,116	\$ 1,105,753	\$ 15,623,183	\$ 786,103

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 4 - Long-term Obligations: (Continued)

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

Year Ending June 30	Direct Borrowings and Direct Placements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2021	\$ 500,371	\$ 348,298	\$ 246,826	\$ 54,732
2022	427,646	286,294	251,452	50,106
2023	443,460	273,907	256,089	45,469
2024	454,778	260,937	261,073	40,484
2025	469,974	247,298	1,920,728	18,503
2026-2030	2,120,713	1,029,374	181,336	-
2031-2035	2,014,341	694,963	-	-
2036-2040	1,516,209	458,623	-	-
2041-2045	1,507,240	304,520	-	-
2046-2050	1,123,397	156,840	-	-
2051-2055	750,011	80,749	-	-
2056-2060	535,013	16,076	-	-
Total	\$ <u>11,863,153</u>	\$ <u>4,157,879</u>	\$ <u>3,117,504</u>	\$ <u>209,294</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 4 - Long-term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2021 were as follows:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Direct borrowings and direct placements:		
Bonds payable		
 \$985,000 Series 2011B VRA Refunding Bond payable with principal due in annual installments ranging from \$80,000 to \$120,000 and interest payable semi-annually ranging from 2.12% to 5.12%, maturing October 1, 2021	\$ 120,000	\$ 120,000
Premium on Series 2011B VRA Refunding Bond	1,744	1,744
 \$1,135,000 Series 2012A VRA Revenue Bond payable with principal due in annual installments ranging from \$25,000 to \$80,000 and interest payable semi-annually ranging from 3.52% to 5.12%, maturing October 1, 2037	910,000	35,000
Premium on Series 2012A VRA Refunding Bond	97,327	9,756
 \$5,000,000 Series 2011B USDA Rural Development Revenue Bond issued December 20, 2011, with principal and interest due in monthly installments of \$16,350 with an interest rate of 2.25%, maturing in 2049	3,985,153	106,985
 \$977,000 Series 2015A GO Refunding Bond with principal due in semi-annual installments ranging from \$7,000 to \$51,000 and interest payable semi-annually at 2.200% maturing 2027	593,000	93,000
 \$2,205,000 Series 2013B VRA Revenue Bond payable with principal due in annual installments ranging from \$70,000 to \$165,000 and interest payable semi-annually ranging from 3.48% to 4.88%, maturing April 1, 2034	1,655,000	95,000
Premium on Series 2013B VRA Revenue Bond	64,637	8,427
 \$4,600,000 Rural Development Loan issued in 2020 with interest only payments due in monthly installments for the first 24 months. Principal and interest will be due in monthly installments of \$13,846 beginning in 2022 with an interest rate of 2.00%, maturing in 2060.	4,600,000	50,386
Total Bonds Payable	\$ 12,026,861	\$ 520,298

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 4 - Long-term Obligations: (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Notes payable		
\$42,998 with a final payment for the outstanding balance due February 1, 2028, interest at 0%	\$ 446,715	\$ 53,076
Note payable to Benchmark bank issued December 2020 for Smartmeter Loan project. Principal and interest due in monthly interest installments of \$16,077 with a final payment due December 2025, interest at 1.99%	2,428,046	145,933
Note payable to the Town of South Boston IDA issued April 2011 for the construction of the Authority's administrative building due in monthly installments of \$4,388 with a final payment due April 2026, interest at 3.71%	228,243	44,917
Note payable to the Town of South Boston IDA issued April 2011 for the land purchase for the Authority's administrative building due in annual installments of \$2,900 with a final payment due April 2026, interest at 0%	<u>14,500</u>	<u>2,900</u>
Total notes payable	\$ <u>3,117,504</u>	\$ <u>246,826</u>
Total direct borrowings and direct placements	\$ <u>15,144,365</u>	\$ <u>767,124</u>
Compensated absences	\$ <u>189,788</u>	\$ <u>18,979</u>
Net pension liability	\$ <u>185,395</u>	\$ <u>-</u>
Net OPEB liabilities	\$ <u>103,635</u>	\$ <u>-</u>
Total Long-term Obligations	\$ <u><u>15,623,183</u></u>	\$ <u><u>786,103</u></u>

Line of Credit:

The Authority has a \$500,000 line of credit, which renews annually on January 2. The line of credit has a variable rate of interest. The Authority did not use the line of credit during fiscal year 2021.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan:

Plan Description

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

Benefit Structures

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

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013 that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

Average Final Compensation and Service Retirement Multiplier

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

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

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

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	14
Inactive members:	
Vested inactive members	2
Non-vested inactive members	7
Inactive members active elsewhere in VRS	1
Total inactive members	10
Active members	29
Total covered employees	53

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

Contributions

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

The Authority’s contractually required employer contribution rate for the year ended June 30, 2021 was 8.25% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 \$97,184 and \$74,949 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension Liability

The net pension liability 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, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 rolled forward to the measurement date of June 30, 2020.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority’s Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

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

* Administrative expenses as a percent of the fair value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

Discount Rate

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

Discount Rate: (Continued)

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, 2020, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2020, 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, 2019	\$ 2,506,199	\$ 2,564,881	\$ (58,682)
Changes for the year:			
Service cost	\$ 147,247	\$ -	\$ 147,247
Interest	165,828	-	165,828
Benefit changes	-	-	-
Differences between expected and actual experience	113,752	-	113,752
Assumption changes	-	-	-
Contributions - employer	-	74,635	(74,635)
Contributions - employee	-	59,912	(59,912)
Net investment income	-	49,876	(49,876)
Benefit payments, including refunds of employee contributions	(98,965)	(98,965)	-
Administrative expenses	-	(1,613)	1,613
Other changes	-	(60)	60
Net changes	\$ 327,862	\$ 83,785	\$ 244,077
Balances at June 30, 2020	\$ 2,834,061	\$ 2,648,666	\$ 185,395

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate as of June 30, 2020 and June 30, 2019

The following presents the net pension asset of the Authority using the discount rate of 6.75%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%, 6.00%) or one percentage point higher (7.75%) than the current rate:

2020	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Halifax County Service Authority Net Pension Liability (Asset)	\$ 538,497	\$ 185,395	\$ (107,879)

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

For the year ended June 30, 2021, the Authority recognized pension expense of \$227,042. At June 30, 2021, 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	\$ 294,693	\$ 3,965
Change of assumptions	41,142	18,774
Net difference between projected and actual earnings on pension plan investments	81,044	-
Employer contributions subsequent to the measurement date	97,184	-
Total	<u>\$ 514,063</u>	<u>\$ 22,739</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 5 - Pension Plan: (Continued)

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

\$97,184 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as an increase in the Net Pension Asset in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2022	\$ 116,747
2023	151,946
2024	98,334
2025	27,113
2026	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2020 Annual Comprehensive Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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.

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, 2021, the following employees were covered by the benefit terms:

	<u>June 30, 2021</u>
Total active employees with coverage	26
Total retirees with coverage	<u>4</u>
Total	<u><u>30</u></u>

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, 2021 was \$0.

Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of June 30, 2021.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	5.00%
Discount Rate	2.75%

Discount Rate

The discount rate used to determine the liabilities is based on the 20-year tax exempt municipal bond yield. This rate was 2.75% as of June 30, 2021.

Changes in Total OPEB Liability

		Total OPEB Liability
Balances at June 30, 2020	\$	<u>37,334</u>
Changes for the year:		
Service cost	\$	-
Interest		(2,846)
Difference between expected and actual experience		228,298
Changes in assumptions		-
Contributions - employer		-
Net investment income		-
Benefit payments		<u>(262,786)</u>
Net changes		<u>(37,334)</u>
Balances at June 30, 2021	\$	<u><u>-</u></u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current discount rate:

	1% Decrease (1.75%)	Current Discount Rate (2.75%)	1% Increase (3.75%)
June 30, 2021	\$ -	\$ -	\$ -

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%), (4.20%), (2.50%), (2.00%)	Healthcare Cost Trend Rates* (4.70%), (5.20%), (3.50%), (3.00%)	1% Increase (5.70%), (6.20%), (4.50%), (4.00%)
June 30, 2021	\$ -	\$ -	\$ -

* Healthcare cost trend rates as of June 30, 2021 were: Medical - 4.70%, Pharmacy - 5.20%, Dental - 3.50%, Vision - 3.00%

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

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

For the year ended June 30, 2021, the Authority recognized OPEB expense in the amount of \$225,452). At June 30, 2021, 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.

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

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

Eligible Employees

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

Note 6 - Other Postemployment Benefits: (Continued)

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

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.

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 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% 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, 2021 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$6,876, \$6,649 and \$6,168 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the entity reported a liability of \$103,635, for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was .00621% as compared to .00636% at June 30, 2019.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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 GLI Plan OPEB: (Continued)

For the year ended June 30, 2021 and 2020, the participating employer recognized GLI OPEB expense of \$3,436. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,647	\$ 930
Net difference between projected and actual earnings on GLI OPEB plan investments	3,113	-
Change in assumptions	5,183	2,164
Changes in proportionate share	1,301	3,798
Employer contributions subsequent to the measurement date	6,876	-
Total	<u>\$ 23,120</u>	<u>\$ 6,892</u>

\$6,876 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2022	\$ 1,045
2023	1,924
2024	2,727
2025	3,110
2026	570
Thereafter	(24)

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

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

Actuarial Assumptions:

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020.

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

*Administrative expenses as a percent of the fair value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

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

Actuarial Assumptions: (Continued)

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

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the Group Life Insurance Plan is as follows (amounts expressed in thousands):

		GLI OPEB Plan
Total GLI OPEB Liability	\$	3,523,937
Plan Fiduciary Net Position		1,855,102
GLI Net OPEB Liability (Asset)	\$	<u>1,668,835</u>

Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%
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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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

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:

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.14%</u>

*The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

2021	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Authority's proportionate share of the GLI Plan Net OPEB Liability	\$ 136,236	\$ 103,635	\$ 77,159

Group Life Insurance Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2020 Annual Comprehensive Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 6 - Other Postemployment Benefits: (Continued)

OPEB Aggregate Totals

2021	Halifax County Service Authority			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
VRS Group Life Insurance Plan	\$ 23,120	\$ 6,892	\$ 103,635	\$ 3,436
Authority's Stand-Alone Plan	-	-	-	225,452
Totals	\$ <u>23,120</u>	\$ <u>6,892</u>	\$ <u>103,635</u>	\$ <u>228,888</u>

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:

The Authority had the following significant contract commitments as of June 30, 2021:

Project	Remaining Commitment as of June 30, 2021
Advanced Metering Infrastructure	\$ 599,183

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2021 (Continued)

Note 9 - Upcoming Pronouncements:

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. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

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

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

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

Statement No. 99, *Omnibus 2022*, addresses (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to for fiscal years beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, provides more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability for accounting changes and error corrections. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

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

- Required Supplementary Information -

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Net Pension (Asset) Liability and Related Ratios - Pension Plan For the Measurement Dates of June 30, 2014 through June 30, 2020

	2020	2019	2018	2017
Total pension liability				
Service cost	\$ 147,247	\$ 145,433	\$ 156,371	\$ 168,751
Interest	165,828	134,283	120,398	113,335
Differences between expected and actual experience	113,752	322,272	74,456	(6,010)
Changes of assumptions	-	74,454	-	(78,378)
Benefit payments	(98,965)	(177,131)	(128,604)	(65,000)
Net change in total pension liability	\$ 327,862	\$ 499,311	\$ 222,621	\$ 132,698
Total pension liability - beginning	2,506,199	2,006,888	1,784,267	1,651,569
Total pension liability - ending (a)	\$ 2,834,061	\$ 2,506,199	\$ 2,006,888	\$ 1,784,267
Plan fiduciary net position				
Contributions - employer	\$ 74,635	\$ 75,806	\$ 92,109	\$ 94,402
Contributions - employee	59,912	58,840	56,980	58,580
Net investment income	49,876	158,673	170,105	242,303
Benefit payments	(98,965)	(177,131)	(128,604)	(65,000)
Administrator charges	(1,613)	(1,611)	(1,409)	(1,284)
Other	(60)	(102)	(152)	(221)
Net change in plan fiduciary net position	\$ 83,785	\$ 114,475	\$ 189,029	\$ 328,780
Plan fiduciary net position - beginning	2,564,881	2,450,406	2,261,377	1,932,597
Plan fiduciary net position - ending (b)	\$ 2,648,666	\$ 2,564,881	\$ 2,450,406	\$ 2,261,377
Authority's net pension (asset) liability - ending (a) - (b)	\$ 185,395	\$ (58,682)	\$ (443,518)	\$ (477,110)
Plan fiduciary net position as a percentage of the total pension (asset) liability	93.46%	102.34%	122.10%	126.74%
Covered payroll	\$ 1,278,618	\$ 1,247,317	\$ 1,186,189	\$ 1,201,582
Authority's net pension (asset) liability as a percentage of covered payroll	14.50%	-4.70%	-37.39%	-39.71%

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 Changes in Net Pension (Asset) Liability and Related Ratios - Pension Plan For the Measurement Dates of June 30, 2014 through June 30, 2020 (Continued)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 176,747	\$ 179,591	\$ 198,052
Interest	99,639	77,314	60,484
Differences between expected and actual experience	(22,587)	97,731	-
Changes of assumptions	-	-	-
Benefit payments	(51,278)	(20,145)	(16,073)
Net change in total pension liability	<u>\$ 202,521</u>	<u>\$ 334,491</u>	<u>\$ 242,463</u>
Total pension liability - beginning	<u>1,449,048</u>	<u>1,114,557</u>	<u>872,094</u>
Total pension liability - ending (a)	<u><u>\$ 1,651,569</u></u>	<u><u>\$ 1,449,048</u></u>	<u><u>\$ 1,114,557</u></u>
 Plan fiduciary net position			
Contributions - employer	\$ 118,144	\$ 117,501	\$ 148,496
Contributions - employee	58,181	57,974	56,472
Net investment income	34,671	75,638	197,809
Benefit payments	(51,278)	(20,145)	(16,073)
Administrator charges	(1,023)	(864)	(900)
Other	(14)	(16)	10
Net change in plan fiduciary net position	<u>\$ 158,681</u>	<u>\$ 230,088</u>	<u>\$ 385,814</u>
Plan fiduciary net position - beginning	<u>1,773,916</u>	<u>1,543,828</u>	<u>1,158,014</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,932,597</u></u>	<u><u>\$ 1,773,916</u></u>	<u><u>\$ 1,543,828</u></u>
 Authority's net pension (asset) liability - ending (a) - (b)	 <u><u>\$ (281,028)</u></u>	 <u><u>\$ (324,868)</u></u>	 <u><u>\$ (429,271)</u></u>
 Plan fiduciary net position as a percentage of the total pension (asset) liability	 117.02%	 122.42%	 138.51%
 Covered payroll	 \$ 1,180,408	 \$ 1,171,823	 \$ 1,129,817
 Authority's net pension (asset) liability as a percentage of covered payroll	 -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 Plan For the Years Ended June 30, 2011 through June 30, 2020

Fiscal Year	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)
2021	\$ 97,184	\$ 97,184	\$ -	\$ 1,273,413	7.63%
2020	74,949	74,949	-	1,278,618	5.86%
2019	75,805	75,805	-	1,247,317	6.08%
2018	92,111	92,111	-	1,186,189	7.77%
2017	94,404	94,404	-	1,201,582	7.86%
2016	118,985	118,985	-	1,180,408	10.08%
2015	118,120	118,120	-	1,171,823	10.08%
2014	148,684	148,684	-	1,129,817	13.16%
2013	151,915	151,915	-	1,154,372	13.16%
2012	136,215	136,215	-	1,069,194	12.74%

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Required Supplementary Information - Pension Plan For the Year Ended June 30, 2021

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

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

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60.00% to 45.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios - Health Insurance Plan For the Years Ended June 30, 2018 through 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service cost	\$ -	\$ 8,100	\$ 7,913	\$ 1
Interest	(2,846)	11,873	17,614	-
Changes in assumptions	-	94	14,774	92,627
Differences between expected and actual experience	228,298	(204,679)	(43,663)	356,955
Benefit payments	(262,786)	(224,275)	-	-
Net change in total OPEB liability	\$ (37,334)	\$ (408,887)	\$ (3,362)	\$ 449,583
Total OPEB liability - beginning	37,334	446,221	449,583	-
Total OPEB liability - ending	<u>\$ -</u>	<u>\$ 37,334</u>	<u>\$ 446,221</u>	<u>\$ 449,583</u>
 Covered payroll	 \$ N/A	 \$ N/A	 \$ N/A	 \$ N/A
 Authority's total OPEB liability (asset) as a percentage of covered payroll	 N/A	 N/A	 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 Plan For the Year Ended June 30, 2021

Valuation Date: June 30, 2021

Measurement Date: June 30, 2021

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	2.75%
Inflation	0%
Healthcare Trend Rate	Medical healthcare trend rate of 4.70%; Pharmacy healthcare trend rate of 5.20%; Dental healthcare trend rate of 3.50%; Vision healthcare trend rate of 3.00%
Salary Increase Rates	5.00%
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Authority's Share of Net OPEB Liability Group Life Insurance (GLI) Plan For the Measurement Dates of June 30, 2017 through June 30, 2020

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)
2020	0.00621% \$	103,635 \$	1,278,618	8.11%	52.64%
2019	0.00636%	103,494	1,247,317	8.30%	52.00%
2018	0.00624%	94,000	1,186,189	7.92%	51.22%
2017	0.00651%	98,000	1,201,582	8.16%	48.86%

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

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions Group Life Insurance (GLI) Plan For the Years Ended June 30, 2017 through June 30, 2021

Date	Contributions in Relation to				Contributions as a % of
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Covered Payroll (5)
2021	\$ 6,876	\$ 6,876	\$ -	\$ 1,273,413	0.54%
2020	6,649	6,649	-	1,278,618	0.52%
2019	6,486	6,486	-	1,247,317	0.52%
2018	6,168	6,168	-	1,186,189	0.52%
2017	6,248	6,248	-	1,201,582	0.52%

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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Required Supplementary Information Group Life Insurance (GLI) Plan For the Year Ended June 30, 2021

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:

Non-Largest Ten Locality Employers - General Employees

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

- Compliance Section -



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

**To the Board of Directors
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, 2021, 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 Draft, 2023.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Charlottesville, Virginia
Draft, 2023