HALIFAX COUNTY SERVICE AUTHORITY
SOUTH BOSTON, VIRGINIA

FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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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

CPAs | Consultants

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority, as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

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.

Robinson, Farmer, Cox Associates

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, 2020, 2019, and 2018.

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 S*tatement 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 S*tatement 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 42 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 $29,886,774 (net position). Of this amount, $2,303,102 (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 place 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		
	2020	2019	2018
Current and other assets	$ 3,790,178	$ 5,719,969	$ 6,168,955
Capital assets	40,039,200	40,390,959	39,091,060
Total assets	$ 43,829,378	$ 46,110,928	$ 45,260,015
Deferred outflows of resources	$ 509,686	$ 228,713	$ 201,571
Long-term liabilities	$ 13,022,760	$ 13,422,420	$ 11,728,431
Other liabilities	1,357,231	2,120,003	2,051,226
Total liabilities	$ 14,379,991	$ 15,542,423	$ 13,779,657
Deferred inflows of resources	$ 72,299	$ 101,062	$ 127,696
Net position:			
Net investment in capital assets	$ 26,517,416	$ 26,757,979	$ 27,109,685
Restricted	1,066,256	2,676,784	477,110
Unrestricted	2,303,102	1,261,393	3,967,438
Total net position	$ 29,886,774	$ 30,696,156	$ 31,554,233

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		
	2020	2019	2018
Revenues:			
Operating revenues	$ 4,863,518	$ 5,182,246	$ 5,121,638
Contribution from participating governments	118,378	122,659	122,013
Other nonoperating revenue	244,783	22,245	120,277
Investment income	18,911	42,005	23,206
Total revenues	$ 5,245,590	$ 5,369,155	$ 5,387,134
Expenses:			
Operating expenses (excluding depreciation)	$ 3,708,792	$ 3,999,346	$ 3,898,982
Depreciation expense	2,002,131	1,850,136	1,828,155
Interest expense	344,049	377,750	294,277
Total expenses	$ 6,054,972	$ 6,227,232	$ 6,021,414
Increase (decrease) in net position	$ (809,382)	$ (858,077)	$ (634,280)
Net position-beginning	30,696,156	31,554,233	32,188,513
Net position-ending	$ 29,886,774	$ 30,696,156	$ 31,554,233

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 2018 to 2019 by $60,608 (1.2%) due to an increase in rates. Operating revenues decreased from 2019 to 2020 by 318,728 (6.2%) due to a decrease in usage. Nonoperating revenues decreased from 2018 to 2019 by $78,587 (29.6%) 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 2018 to 2019 by $100,364 (2.6%) and decreased from 2019 to 2020 by $290,554 (7.3%). Other expenses increased from 2018 to 2019 by $105,454 (5.0%) 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, 2020, 2019 and 2018.

	June 30, 2020	June 30, 2019	June 30, 2018
Capital assets not being depreciated			
Land	$ 133,500	$ 133,500	$ 133,500
Construction in progress	90,430	5,556,006	2,435,825
Total capital assets not being depreciated	$ 223,930	$ 5,689,506	$ 2,569,325
Capital assets being depreciated			
Utility plant lines and accessories	$ 63,980,397	$ 57,226,317	$ 57,226,317
Vehicles and equipment	1,387,092	1,025,224	995,370
Total assets being depreciated	$ 65,367,489	$ 58,251,541	$ 58,221,687
Less: Accumulated depreciation	(25,552,219)	(23,550,088)	(21,699,952)
Capital assets being depreciated, net	$ 39,815,270	$ 34,701,453	$ 36,521,735
Net capital assets	$ 40,039,200	$ 40,390,959	$ 39,091,060

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 $13,271,493 in bonds and notes outstanding. The Authority also had $182,499 in compensated absences and $140,828 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, 2020 and 2019

	As of June 30,			
	2020			2019
ASSETS	Water	Sewer	Total	Total
Current assets:				
Cash and cash equivalents	$ 1,628,560	$ 127,019	$ 1,755,579	$ 1,705,674
Accounts receivable (net of allowance for uncollectible accounts)	181,206	271,809	453,015	829,473
Inventory of materials and supplies, at cost	154,521	13,400	167,921	188,624
Total current assets	$ 1,964,287	$ 412,228	$ 2,376,515	$ 2,723,771
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	$ 514,368	$ 840,613	$ 1,354,981	$ 2,552,680
Net pension asset	23,473	35,209	58,682	443,518
Total restricted assets	$ 537,841	$ 875,822	$ 1,413,663	$ 2,996,198
Capital assets:				
Utility plant, lines, and accessories	$ 19,850,946	$ 44,129,451	$ 63,980,397	$ 57,226,317
Machinery and equipment	554,837	832,255	1,387,092	1,025,224
Accumulated depreciation	(13,187,994)	(12,364,225)	(25,552,219)	(23,550,088)
Sub-total net capital assets	$ 7,217,789	$ 32,597,481	$ 39,815,270	$ 34,701,453
Land	53,400	80,100	133,500	133,500
Construction in progress	-	90,430	90,430	5,556,006
Total net capital assets	$ 7,271,189	$ 32,768,011	$ 40,039,200	$ 40,390,959
Total noncurrent assets	$ 7,809,030	$ 33,643,833	$ 41,452,863	$ 43,387,157
Total assets	$ 9,773,317	$ 34,056,061	$ 43,829,378	$ 46,110,928
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	$ -	$ 47,332	$ 47,332	$ 52,030
Pension related items	176,275	264,412	440,687	165,197
OPEB related items	8,667	13,000	21,667	11,486
Total deferred outflows of resources	$ 184,942	$ 324,744	$ 509,686	$ 228,713
LIABILITIES				
Current liabilities:				
Accounts payable	$ 130,778	$ 69,006	$ 199,784	$ 710,210
Retainage payable	-	148,120	148,120	-
Accrued interest payable	-	89,860	89,860	104,596
Customers' deposits	138,963	208,444	347,407	319,414
Compensated absences - current portion	6,350	11,900	18,250	18,297
Bonds and notes payable - current portion	39,704	514,106	553,810	967,486
Total current liabilities	$ 315,795	$ 1,041,436	$ 1,357,231	$ 2,120,003
Noncurrent liabilities:				
Compensated absences - noncurrent portion	$ 57,154	$ 107,095	$ 164,249	$ 164,675
Net OPEB liabilities	56,331	84,497	140,828	540,221
Bonds and notes payable - noncurrent portion	276,080	12,441,603	12,717,683	12,717,524
Total noncurrent liabilities	$ 389,565	$ 12,633,195	$ 13,022,760	$ 13,422,420
Total liabilities	$ 705,360	$ 13,674,631	$ 14,379,991	$ 15,542,423
DEFERRED INFLOWS OF RESOURCES				
Pension related items	$ 25,307	$ 37,961	$ 63,268	$ 89,062
OPEB related items	3,612	5,419	9,031	12,000
Total deferred inflows of resources	$ 28,919	$ 43,380	$ 72,299	$ 101,062
NET POSITION				
Net investment in capital assets	$ 6,874,908	$ 19,642,508	$ 26,517,416	$ 26,757,979
Restricted for:				
Net pension asset	23,473	35,209	58,682	443,518
Bond covenants	375,405	632,169	1,007,574	2,233,266
Unrestricted	1,950,194	352,908	2,303,102	1,261,393
Total net position	$ 9,223,980	$ 20,662,794	$ 29,886,774	$ 30,696,156

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020 and 2019

	For the Year Ended June 30,			
	2020			2019
	Water	**Sewer**	**Total**	**Total**
Operating revenues:				
Water and sewer charges	$ 2,008,662	$ 2,721,456	$ 4,730,118	$ 5,015,865
Facility fees	14,300	21,450	35,750	34,353
Other revenues	39,060	58,590	97,650	132,028
Total operating revenues	$ 2,062,022	$ 2,801,496	$ 4,863,518	$ 5,182,246
Operating expenses:				
Operations and maintenance	$ 1,412,510	$ 1,689,107	$ 3,101,617	$ 3,410,533
Administrative	242,870	364,305	607,175	588,813
Depreciation	761,888	1,240,243	2,002,131	1,850,136
Total operating expenses	$ 2,417,268	$ 3,293,655	$ 5,710,923	$ 5,849,482
Operating income (loss)	$ (355,246)	$ (492,159)	$ (847,405)	$ (667,236)
Nonoperating revenues (expenses):				
Investment earnings	$ 7,564	$ 11,347	$ 18,911	$ 42,005
Tower rent	17,733	26,600	44,333	22,245
Contribution from participating governments	47,351	71,027	118,378	122,659
Grant revenue	200,450	-	200,450	-
Interest expense	(3,041)	(341,008)	(344,049)	(377,750)
Total nonoperating revenues (expenses)	$ 270,057	$ (232,034)	$ 38,023	$ (190,841)
Change in net position	$ (85,189)	$ (724,193)	$ (809,382)	$ (858,077)
Net position, beginning of year	9,309,169	21,386,987	30,696,156	31,554,233
Net position, end of year	$ 9,223,980	$ 20,662,794	$ 29,886,774	$ 30,696,156

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

Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	For the Year Ended June 30,			
	2020			2019
	Water	Sewer	Total	Total
Cash flows from operating activities:				
Receipts from customers and users	$ 2,223,802	$ 3,044,167	$ 5,267,969	$ 5,153,479
Payments to suppliers and vendors	(1,091,700)	(2,134,060)	(3,225,760)	(2,677,600)
Payments to and on behalf of employees	(682,234)	(725,155)	(1,407,389)	(1,336,939)
Net cash provided by (used for) operating activities	$ 449,868	$ 184,952	$ 634,820	$ 1,138,940
Cash flows from noncapital financing activities:				
Contribution from participating governments	$ 47,351	$ 71,027	$ 118,378	$ 122,659
Nonoperating revenue	200,450	-	200,450	-
Net cash provided by (used for) noncapital financing activities	$ 247,801	$ 71,027	$ 318,828	$ 122,659
Cash flows from capital and related financing activities:				
Additions to capital assets	$ (224,842)	$ (1,127,907)	$ (1,352,749)	$ (3,150,034)
Principal payments	(38,655)	(5,410,103)	(5,448,758)	(917,363)
Proceeds from indebtedness	-	5,062,759	5,062,759	2,651,733
Interest payments	(3,041)	(378,564)	(381,605)	(362,214)
Net cash provided by (used for) capital and related financing activities	$ (266,538)	$ (1,853,815)	$ (2,120,353)	$ (1,777,878)
Cash flows from investing activities:				
Interest received	$ 7,564	$ 11,347	$ 18,911	$ 42,005
Net cash provided by (used for) investing activities	$ 7,564	$ 11,347	$ 18,911	$ 42,005
Increase (decrease) in cash and cash equivalents	$ 438,695	$ (1,586,489)	$ (1,147,794)	$ (474,274)
Cash and cash equivalents at beginning of year, including restricted cash	1,704,233	2,554,121	4,258,354	4,732,628
Cash and cash equivalents at end of year, including restricted cash	$ 2,142,928	$ 967,632	$ 3,110,560	$ 4,258,354
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (355,246)	$ (492,159)	$ (847,405)	$ (667,236)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	761,888	1,240,243	2,002,131	1,850,136
Tower rent	17,733	26,600	44,333	22,245
Changes in operating assets, liabilities, deferred inflows and outflows:				
(Increase) decrease in receivables	150,583	225,875	376,458	(43,859)
(Increase) decrease in inventory	17,121	3,582	20,703	(15,021)
(Increase) decrease in net pension asset	153,934	230,902	384,836	33,592
(Increase) decrease in deferred outflows of resources - pension	(110,196)	(165,294)	(275,490)	(26,523)
(Increase) decrease in deferred outflows of resources - OPEB	(4,073)	(6,108)	(10,181)	(5,318)
Increase (decrease) in payables	(12,125)	(647,804)	(659,929)	(10,493)
Increase (decrease) in customer deposits	11,197	16,796	27,993	15,092
Increase (decrease) in compensated absences	(9,685)	9,212	(473)	20,321
Increase (decrease) in net OPEB liabilities	(159,757)	(239,636)	(399,393)	(7,362)
Increase (decrease) in deferred inflows of resources - pension	(10,318)	(15,476)	(25,794)	(27,634)
Increase (decrease) in deferred inflows of resources - OPEB	(1,188)	(1,781)	(2,969)	1,000
Net cash provided by (used for) operating activities	$ 449,868	$ 184,952	$ 634,820	$ 1,138,940
Noncash investing, capital and financing activities:				
Unpaid capital asset additions	$ 80,497	$ 69,006	$ 149,503	$ -

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

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.

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 $200,785 and $167,771 at June 30, 2020 and 2019, respectively.

E. Basic Financial Statements:

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

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

-- Management's Discussion and Analysis

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

-- Required Supplementary Information
  - Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
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F. Capital Assets:

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

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

F. Capital Assets: (Continued)

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

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

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

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

G. Interest on Indebtedness:

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

H. Cash and Cash Equivalents:

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

I. Investments:

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

J. Premiums/Discount on Bonds Held for Investment:

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

K. Unamortized Deferred Charge on Refunding:

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

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

L. 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.

M. Inventory:

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. Inventory was valued at $167,921 and $188,624 at June 30, 2020 and 2019, respectively.

N. 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.

O. 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.

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.

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

Q. Deferred Outflows/Inflows of Resources: (Continued)

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.

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.

Credit Risk of Debt Securities:

The Authority's rated debt investments as of June 30, 2020 and 2019 were rated by Standard & Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

	Fair Quality Ratings	
	AAAm	
	2020	2019
State Non-Arbitrage Pool	$ 69,061	$ 1,051,482

Note 2 - Deposits and Investments: (Continued)

Interest Rate Risk:

The Authority does not have an investment policy regarding the interest rate risk of investments.

Investment Type	2020 Fair Value	2020 1-5 Years	2019 Fair Value	2019 1-5 Years
State Non-Arbitrage Pool	$ 69,061	$ 69,061	$ 1,051,482	$ 1,051,482

External Investment Pool:

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

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 133,500	$ -	$ -	$ 133,500
Construction in progress	5,556,006	1,208,011	6,673,587	90,430
Total capital assets, not being depreciated	$ 5,689,506	$ 1,208,011	$ 6,673,587	$ 223,930
Capital assets, being depreciated:				
Utility plant, lines and accessories	$ 57,226,317	$ 6,754,080	$ -	$ 63,980,397
Machinery and equipment	1,025,224	361,868	-	1,387,092
Total capital assets, being depreciated	$ 58,251,541	$ 7,115,948	$ -	$ 65,367,489
Accumulated depreciation:				
Utility plant, lines and accessories	$ (22,816,579)	$ (1,905,040)	$ -	$ (24,721,619)
Machinery and equipment	(733,509)	(97,091)	-	(830,600)
Total accumulated depreciation	$ (23,550,088)	$ (2,002,131)	$ -	$ (25,552,219)
Capital assets, being depreciated, net	$ 34,701,453	$ 5,113,817	$ -	$ 39,815,270
Capital assets, net	$ 40,390,959	$ 6,321,828	$ 6,673,587	$ 40,039,200

Note 3 - Capital Assets: (Continued)

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 133,500	$ -	$ -	$ 133,500
Construction in progress	2,435,825	3,120,181	-	5,556,006
Total capital assets, not being depreciated	$ 2,569,325	$ 3,120,181	$ -	$ 5,689,506
Capital assets, being depreciated:				
Utility plant, lines and accessories	$ 57,226,317	$ -	$ -	$ 57,226,317
Machinery and equipment	995,370	29,854	-	1,025,224
Total capital assets, being depreciated	$ 58,221,687	$ 29,854	$ -	$ 58,251,541
Accumulated depreciation:				
Utility plant, lines and accessories	$ (21,018,656)	$ (1,797,923)	$ -	$ (22,816,579)
Machinery and equipment	(681,296)	(52,213)	-	(733,509)
Total accumulated depreciation	$ (21,699,952)	$ (1,850,136)	$ -	$ (23,550,088)
Capital assets, being depreciated, net	$ 36,521,735	$ (1,820,282)	$ -	$ 34,701,453
Capital assets, net	$ 39,091,060	$ 1,299,899	$ -	$ 40,390,959

Depreciation expense totaled $2,002,131 for 2020 and $1,850,136 for 2019.

Note 4 - Long-term Obligations:

Changes in long-term obligations for the year ended June 30, 2020 were as follows:

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Direct borrowings and direct placements:					
Bonds payable	$ 8,536,102	$ 4,600,000	$ 841,720	$ 12,294,382	$ 430,607
Premium on bond issue	215,169	-	27,518	187,651	23,943
Notes payable	4,933,739	462,759	4,607,038	789,460	99,260
Total direct borrowings and direct placements	$ 13,685,010	$ 5,062,759	$ 5,476,276	$ 13,271,493	$ 553,810
Compensated absences	182,972	-	473	182,499	18,250
Net OPEB liabilities	540,221	49,223	448,616	140,828	-
Total	$ 14,408,203	$ 5,111,982	$ 5,925,365	$ 13,594,820	$ 572,060

Note 4 - Long-term Obligations: (Continued)

Changes in long-term obligations for the year ended June 30, 2019 were as follows:

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Direct borrowings and direct placements:					
Bonds payable	$ 9,357,295	$ -	$ 821,193	$ 8,536,102	$ 842,282
Premium on bond issue	245,905	-	30,736	215,169	27,518
Notes payable	2,378,175	2,651,733	96,169	4,933,739	97,686
Total direct borrowings and direct placements	$ 11,981,375	$ 2,651,733	$ 948,098	$ 13,685,010	$ 967,486
Compensated absences	162,651	20,321	-	182,972	18,297
Net OPEB liabilities	547,583	56,301	63,663	540,221	-
Total	$ 12,691,609	$ 2,728,355	$ 1,011,761	$ 14,408,203	$ 985,783

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

	Direct Borrowings and Direct Placements			
Year Ending	Bonds Payable		Notes Payable	
June 30	Principal	Interest	Principal	Interest
2021	$ 430,607	$ 316,700	$ 99,260	$ 9,370
2022	500,371	348,298	100,893	7,737
2023	427,646	286,294	102,588	6,042
2024	443,460	273,907	104,348	4,283
2025	454,778	260,937	106,173	2,457
2026-2030	2,159,394	1,097,132	276,198	604
2031-2035	2,119,752	758,295	-	
2036-2040	1,558,621	495,947	-	-
2041-2045	1,476,818	334,942	-	-
2046-2050	1,295,600	181,459	-	-
2051-2055	737,036	93,724	-	-
2056-2060	690,299	26,945		
Total	$ 12,294,382	$ 4,474,580	$ 789,460	$ 30,493

Note 4 - Long-term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2020 were as follows:

Direct borrowings and direct placements:	Amount Due	
Bonds payable	**2020**	**2019**
$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	$ 230,000	$ 335,000
Premium on Series 2011B VRA Refunding Bond	6,618	14,207
$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	945,000	975,000
Premium on Series 2012A VRA Refunding Bond	107,442	117,920
$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.	4,090,382	4,192,101
$1,315,000 Series 2015C VRA GO Public Refund Bond with principal due in semi-annual installments ranging from $14,000 to $16,000 until 2018 when installments range from $203,000 to $209,000. Interest is payable semi-annually at 2.250% maturing 2020	-	430,000
$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	684,000	774,000
$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	1,745,000	1,830,000
Premium on Series 2013B VRA Revenue Bond	73,591	83,043
$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	-
Total Bonds Payable	$ 12,482,033	$ 8,751,271

Note 4 - Long-term Obligations: (Continued)

Direct borrowings and direct placements: (Continued)	Amount Due	
Notes payable	**2020**	**2019**
Note payable to the Town of South Boston issued in 2008 due in annual installments of $53,076 with a final payment for the outstanding balance due February 1, 2028, interest at 0%	$ 499,791	$ 552,867
Note payable to Benchmark bank issued January 2018 for temporary financing of infrastructure projects due in monthly interest installments of $4,118 with a final payment due January 2021, interest at 3.54%	-	4,047,643
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%	272,269	312,929
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%	17,400	20,300
Total notes payable	$ 789,460	$ 4,933,739
Total direct borrowings and direct placements	$ 13,271,493	$ 13,685,010
Compensated absences	$ 182,499	$ 182,972
Net OPEB liabilities	$ 140,828	$ 540,221
Total Long-term Obligations	$ 13,594,820	$ 14,408,203

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 2020 or 2019.

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.

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, 2018 and June 30, 2017 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	June 30, 2018 Number	June 30, 2017 Number
Inactive members or their beneficiaries currently receiving benefit	12	9
Inactive members:		
Vested inactive members	2	1
Non-vested inactive members	5	3
Inactive members active elsewhere in VRS	1	1
Total inactive members	8	5
Active members	29	32
Total covered employees	49	46

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, 2020 and June 30, 2019 were 6.40% and 6.40% of covered employee compensation, respectively. These rates were based on actuarially determined rates from an actuarial valuation as of June 30, 2017.

These rates, when combined with employee contributions, were 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 $74,949, $75,805 and $92,111 for the years ended June 30, 2020, June 30, 2019, and June 30, 2018, respectively.

Net Pension Asset

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

Actuarial Assumptions – General Employees

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

Inflation	2.50%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, 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.

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

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

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

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:

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

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

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

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

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2018	$ 2,006,888	$ 2,450,406	$ (443,518)
Changes for the year:			
Service cost	$ 145,433	$ -	$ 145,433
Interest	134,283	-	134,283
Changes of assumptions	74,454	-	74,454
Differences between expected and actual experience	322,272	-	322,272
Contributions - employer	-	75,806	(75,806)
Contributions - employee	-	58,840	(58,840)
Net investment income	-	158,673	(158,673)
Benefit payments, including refunds of employee contributions	(177,131)	(177,131)	-
Administrative expenses	-	(1,611)	1,611
Other changes	-	(102)	102
Net changes	$ 499,311	$ 114,475	$ 384,836
Balances at June 30, 2019	$ 2,506,199	$ 2,564,881	$ (58,682)

Note 5 - Pension Plan: (Continued)

Changes in Net Pension Asset: (Continued)

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

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% in 2020 and 7.00% in 2019, as well as what the Authority's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (5.75%, 6.00%) or one percentage point higher (7.75%, 8.00%) than the current rate:

	Rate		
2020	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Halifax County Service Authority Net Pension Liability (Asset)	$ 278,559	$ (58,682)	$ (327,169)

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

Note 5 - Pension Plan: (Continued)

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

For the year ended June 30, 2020, the Authority recognized pension expense of $158,503. At June 30, 2020, 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	$ 307,940	$ 9,120
Change of assumptions	57,798	33,675
Net difference between projected and actual earnings on pension plan investments	-	20,473
Employer contributions subsequent to the measurement date	74,949	-
Total	$ 440,687	$ 63,268

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

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

Note 5 - Pension Plan: (Continued)

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

$74,949 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2021	$	93,720
2022		63,988
2023		99,187
2024		45,575
2025		-
Thereafter		-

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

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

Pension Plan Data

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

Note 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, 2020 and June 30, 2019, the following employees were covered by the benefit terms:

	June 30, 2020	June 30, 2019
Total active employees with coverage	26	24
Total retirees with coverage	4	4
Total	30	28

Contributions

The Authority does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Authority. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2020 was $0.

Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation as of June 30, 2020.

Note 6 – Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2020 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	2.93%

Discount Rate

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

Changes in Total OPEB Liability

		Total OPEB Liability
Balances at June 30, 2019	$	446,221
Changes for the year:		
Service cost	$	8,100
Interest		11,873
Difference between expected and actual experience		(204,679)
Changes in assumptions		94
Benefit payments		(224,275)
Net changes		(408,887)
Balances at June 30, 2020	$	37,334

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

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 (1.93%, 2.46%) or 1 percentage point higher (3.93%, 4.46%) than the current discount rate:

	1% Decrease (1.93%)	Current Discount Rate (2.93%)	1% Increase (3.93%)
June 30, 2020	$ 37,514	$ 37,334	$ 37,157

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

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, 2020	$ 36,977	$ 37,334	$ 37,690

* Healthcare cost trend rates as of June 30, 2020 were: Medical - 4.70%, Pharmacy - 5.20%, Dental - 3.50%, Vision - 3.00%

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

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

Note 6 – Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

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

For the years ended June 30, 2020 and June 30, 2019, the Authority recognized OPEB expense in the amount of ($184,612) and ($3,362), respectively. At June 30, 2020 and June 30, 2019, 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 $8,463 as of June 30, 2020.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Plan from the entity were $6,649, $6,486 and $6,168 for the years ended June 30, 2020, June 30, 2019, and June 30, 2018, respectively.

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

At June 30, 2020 and 2019, the entity reported a liability of $103,494 and $94,000, respectively, for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .00636% as compared to .00624% at June 30, 2018 and .00651% at June 30, 2017.

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, 2020 and 2019, the participating employer recognized GLI OPEB expense of $2,138 and $0, respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,883	$ 1,342
Net difference between projected and actual earnings on GLI OPEB plan investments	-	2,126
Change in assumptions	6,534	3,121
Changes in proportion	1,601	2,442
Employer contributions subsequent to the measurement date	6,649	-
Total	$ 21,667	$ 9,031

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

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

Note 6 – Other Postemployment Benefits: (Continued)

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

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

$6,649 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30		
2021	$	113
2022		113
2023		1,013
2024		1,835
2025		2,219
Thereafter		694

$6,486 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date was recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30		
2020	$	(2,000)
2021		(2,000)
2022		(2,000)
2023		(1,000)
2024		-
Thereafter		-

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, 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:	
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.

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

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the 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, 2019 and 2018, NOL amounts for the Group Life Insurance Plan is as follows (amounts expressed in thousands):

	GLI OPEB Plan 2019	GLI OPEB Plan 2018
Total GLI OPEB Liability	$ 3,390,238	$ 3,113,508
Plan Fiduciary Net Position	1,762,972	1,594,773
GLI Net OPEB Liability (Asset)	$ 1,627,266	$ 1,518,735
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%

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

Note 6 – Other Postemployment Benefits: (Continued)

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

Long-Term Expected Rate of Return

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

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

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

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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

The follow presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75% in 2020 and 7.00% in 2019, 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%, 6.00%) or one percentage point higher (7.75%, 8.00%) than the current rate:

		Rate	
	1% Decrease	Current Discount	1% Increase
2020	(5.75%)	(6.75%)	(7.75%)
Authority's proportionate share of the GLI Plan Net OPEB Liability	$ 135,963	$ 103,494	$ 77,163

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

Group Life Insurance Plan Fiduciary Net Position

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

Note 6 – Other Postemployment Benefits: (Continued)

OPEB Aggregate Totals

	Halifax County Service Authority			
2020	**Deferred Outflows**	**Deferred Inflows**	**Net OPEB Liabilities**	**OPEB Expense**
VRS Group Life Insurance Plan	$ 21,667	$ 9,031	$ 103,494	$ 2,138
Authority's Stand-Alone Plan	-	-	37,334	(184,612)
Totals	$ 21,667	$ 9,031	$ 140,828	$ (182,474)

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

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, 2020 and June 30, 2019:

	Remaining Commitment as of	
Project	**June 30, 2020**	**June 30, 2019**
Cowford Road Pump Station Part A & B	$ -	$ 587,896
Cowford Road Pump Station Part C	-	276,624

Note 9 - Upcoming Pronouncements:

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

Note 9 - Upcoming Pronouncements: (Continued)

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, 2019

	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	$ 145,433	$ 156,371	$ 168,751	$ 176,747	$ 179,591	$ 198,052
Interest	134,283	120,398	113,335	99,639	77,314	60,484
Differences between expected and actual experience	322,272	74,456	(6,010)	(22,587)	97,731	-
Changes of assumptions	74,454	-	(78,378)	-	-	-
Benefit payments	(177,131)	(128,604)	(65,000)	(51,278)	(20,145)	(16,073)
Net change in total pension liability	$ 499,311	$ 222,621	$ 132,698	$ 202,521	$ 334,491	$ 242,463
Total pension liability - beginning	2,006,888	1,784,267	1,651,569	1,449,048	1,114,557	872,094
Total pension liability - ending (a)	$ 2,506,199	$ 2,006,888	$ 1,784,267	$ 1,651,569	$ 1,449,048	$ 1,114,557
Plan fiduciary net position						
Contributions - employer	$ 75,806	$ 92,109	$ 94,402	$ 118,144	$ 117,501	$ 148,496
Contributions - employee	58,840	56,980	58,580	58,181	57,974	56,472
Net investment income	158,673	170,105	242,303	34,671	75,638	197,809
Benefit payments	(177,131)	(128,604)	(65,000)	(51,278)	(20,145)	(16,073)
Administrator charges	(1,611)	(1,409)	(1,284)	(1,023)	(864)	(900)
Other	(102)	(152)	(221)	(14)	(16)	10
Net change in plan fiduciary net position	$ 114,475	$ 189,029	$ 328,780	$ 158,681	$ 230,088	$ 385,814
Plan fiduciary net position - beginning	2,450,406	2,261,377	1,932,597	1,773,916	1,543,828	1,158,014
Plan fiduciary net position - ending (b)	$ 2,564,881	$ 2,450,406	$ 2,261,377	$ 1,932,597	$ 1,773,916	$ 1,543,828
Authority's net pension (asset) liability - ending (a) - (b)	$ (58,682)	$ (443,518)	$ (477,110)	$ (281,028)	$ (324,868)	$ (429,271)
Plan fiduciary net position as a percentage of the total pension (asset) liability	102.34%	122.10%	126.74%	117.02%	122.42%	138.51%
Covered payroll	$ 1,247,317	$ 1,186,189	$ 1,201,582	$ 1,180,408	$ 1,171,823	$ 1,129,817
Authority's net pension (asset) liability as a percentage of covered payroll	-4.70%	-37.39%	-39.71%	-23.81%	-27.72%	-37.99%

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

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions - Pension 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 Employee Payroll (4)	Contributions as a % of Covered Payroll (5)
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%
2011	134,457	134,457	-	1,055,395	12.74%

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

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

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

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

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 2020

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

Valuation Date: June 30, 2020
Measurement Date: June 30, 2020

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry Age Normal cost method
Discount Rate	2.93%
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 Mortality Table for Males and Females 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, 2019

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)
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, 2020

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
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.

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

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

Non-Largest Ten Locality Employers - General Employees

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

- 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, 2020, 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 February 17, 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.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
February 17, 2023