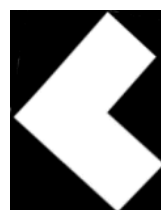


Henry County Public Service Authority
Annual Comprehensive Financial Report
Years Ended June 30, 2024 and 2023



***Creedle, Jones
& Associates, P.C.***
Certified Public Accountants

Henry County Public Service Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Henry County Public Service Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Henry County Public Service Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of June 30, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards and specifications are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Henry County Public Service Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2024, the Authority adopted new accounting guidance, GASB Statement No. 99, Omnibus, GASB Statement No. 100, Accounting Changes and Error Corrections, and GASB Statement No. 101, Compensated Absences. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Henry County Public Service Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Henry County Public Service Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Henry County Public Service Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 1-6 and 56-66 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

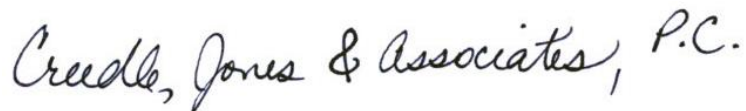
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2024, on our consideration of the Henry County Public 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 Henry County Public 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 the Henry County Public Service Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Creedle, Jones & Associates, P.C." in a cursive script.

Creedle, Jones & Associates, P.C.
Certified Public Accountants

South Hill, Virginia
October 7, 2024

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2024 and 2023

Our discussion and analysis of the Henry County Public Service Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2024. Please read this information in conjunction with Henry County Public Service Authority's basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Henry County Public Service Authority (the "Authority") presents four basic financial statements. These are: (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Statements of Fiduciary Net Position.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Statements of Net Position, which reflects the Authority's assets in relation to its debt to creditors. The excess of our assets over liabilities is our equity, or net position.

Information regarding the results of our operation during the years is reported in the Statements of Revenues, Expenses, and Changes in Net Position. These statements show how much our overall net position increased or decreased during the years as a result of our operations and for other reasons.

Our Statements of Cash Flows disclose the flow of cash resources into and out of the Authority during the years and how we applied those funds.

SUMMARY OF ORGANIZATION AND BUSINESS

The Henry County Public Service Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950 as amended. The Henry County Board of Supervisors created the Authority in 1965. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water and sewage disposal system."

The Authority is governed by six citizen members appointed by the Henry County Board of Supervisors to four-year staggered terms.

In 1974, the Authority and neighboring City of Martinsville (the "City") signed a service agreement in which the Authority would purchase sewage treatment from the City. In 1982, the Authority signed a service agreement with the City to purchase water treatment from the City. These agreements require the Authority to share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

The Authority has constructed water lines which allows the Philpott Water Treatment Plant to furnish water to the 220 South and 58 East areas and has significantly reduced water purchased from the City of Martinsville, Virginia. The Authority can produce the water at a lower cost.

The Authority's infrastructure assets consist of one water treatment plant, approximately 385 miles of water lines and 244 miles of interceptor sewers, and several pump stations. The collection system, consisting of mains and laterals, is owned and maintained by the Authority. The last remaining waste water plant was converted to a pumping station and was completed in December 2005 and all waste water is now treated by the City of Martinsville.

The Authority has no taxing power. The revenues of the Authority are derived from water and sewage disposal charges based on metered and unmetered water consumption of the Authority's users of the system.

FINANCIAL SUMMARY

Financial Position

A summary of the Authority's Statements of Net Position for 2024 and 2023 is presented below:

	<u>2024</u>	<u>Restated 2023</u>	<u>\$ Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 23,601,103	\$ 25,123,372	\$ (1,522,269)	-6.06%
Net capital assets	77,637,114	78,341,489	(704,375)	-0.90%
Other noncurrent assets	<u>3,167,307</u>	<u>3,109,244</u>	<u>58,063</u>	<u>1.87%</u>
Total Assets	<u>104,405,524</u>	<u>106,574,105</u>	<u>(2,168,581)</u>	<u>-2.03%</u>
Deferred Outflows of Resources	<u>388,299</u>	<u>582,523</u>	<u>(194,224)</u>	<u>-33.34%</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 104,793,823</u>	<u>\$ 107,156,628</u>	<u>\$ (2,362,805)</u>	<u>-2.21%</u>
Liabilities				
Current liabilities	3,470,141	3,693,652	(223,511)	-6.05%
Long-term liabilities	<u>27,401,374</u>	<u>28,633,493</u>	<u>(1,232,119)</u>	<u>-4.30%</u>
Total Liabilities	<u>30,871,515</u>	<u>32,327,145</u>	<u>(1,455,630)</u>	<u>-4.50%</u>
Deferred Inflows of Resources	<u>994,285</u>	<u>1,362,664</u>	<u>(368,379)</u>	<u>-27.03%</u>
Net Position				
Net investment in capital assets	51,068,111	50,697,987	370,124	0.73%
Restricted for debt	2,505,703	2,394,268	111,435	4.65%
Unrestricted	<u>19,354,209</u>	<u>20,374,564</u>	<u>(1,020,355)</u>	<u>-5.01%</u>
Total Net Position	<u>72,928,023</u>	<u>73,466,819</u>	<u>(538,796)</u>	<u>-0.73%</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 104,793,823</u>	<u>\$ 107,156,628</u>	<u>\$ (2,362,805)</u>	<u>-2.21%</u>

Change in Net Position

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for 2024 and 2023 is presented below:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2024</u>	<u>Restated 2023</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 13,135,704	\$ 12,778,512	\$ 357,192	2.80%
Operating Expenses	<u>(14,193,716)</u>	<u>(13,010,479)</u>	<u>(1,183,237)</u>	<u>9.09%</u>
Operating Income (Loss)	<u>(1,058,012)</u>	<u>(231,967)</u>	<u>(826,045)</u>	<u>356.10%</u>
Interest Income	1,037,135	605,983	431,152	71.15%
Loss/Gain on Sale of Properties	(52,736)	13,146	(65,882)	-501.16%
Nonoperating Expense	<u>(646,175)</u>	<u>(587,390)</u>	<u>(58,785)</u>	<u>10.01%</u>
Income (Loss) Before Contributions	<u>(719,788)</u>	<u>(200,228)</u>	<u>(519,560)</u>	<u>259.48%</u>
Capital Contributions	<u>180,992</u>	<u>721,967</u>	<u>(540,975)</u>	<u>-74.93%</u>
Changes in Net Position	<u>\$ (538,796)</u>	<u>\$ 521,739</u>	<u>\$ (1,060,535)</u>	<u>-203.27%</u>

During the year, the Authority's net operating loss was \$1,058,012. The Authority had nonoperating revenues in the form of interest income and loss on sale of assets, which amounted to \$984,399 and nonoperating expenses in the form of interest expense and related costs amounting to \$646,175. Operating expenses of \$14,193,716 included all expenses necessary to operate the Authority's water and sewer facilities. Capital contributions in the form of grants was \$180,992.

Net position decreased \$538,796 in 2024 as compared to an increase of \$521,739 in 2023.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2024 and 2023 is presented below:

Condensed Statements of Cash Flows

	<u>2024</u>	<u>Restated 2023</u>
Cash Provided by (Used in)		
Operating activities	\$ 2,259,947	\$ 3,185,077
Capital and related financing activities	(4,958,640)	(2,738,429)
Investing activities	<u>958,982</u>	<u>569,112</u>
Net Increase (Decrease) in Cash	<u>\$ (1,739,711)</u>	<u>\$ 1,015,760</u>

Cash flows from operating activities consist of receipts from customers and grants less operating expenses, creating a positive cash flow.

Cash flows from capital and related financing activities consist of purchases of fixed assets and payments related to debt, creating a negative cash flow.

Cash flows from investing activities consist of interest income, proceeds from sale of property, and change in investments, creating a positive cash flow.

During fiscal year 2024, there was a decrease of \$1,739,711 in cash as compared to an increase of \$1,015,760 in 2023.

Capital Assets

As of June 30, 2024, the Authority's net capital assets total \$77,637,114, which represents a net decrease of \$704,375 or .91% over the previous fiscal year.

Change in Capital Assets

	<u>Balance July 1, 2023</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2024</u>
Land and land improvements	\$ 607,203	\$ (5,600)	\$ 601,603
Construction in progress	6,263,738	(2,403,407)	3,860,331
Building and leasehold improvements	17,085,456	(38,644)	17,046,812
Water and sewer system	139,767,436	5,270,852	145,038,288
Trucks and autos	2,655,782	(19,303)	2,636,479
Office equipment	<u>202,074</u>	<u>29,476</u>	<u>231,550</u>
Total Capital Assets	166,581,689	2,833,374	169,415,063
Less: Accumulated depreciation	<u>(92,719,787)</u>	<u>(3,447,133)</u>	<u>(96,166,920)</u>
Total Capital Assets, Net	<u>\$ 73,861,902</u>	<u>\$ (613,759)</u>	<u>\$ 73,248,143</u>
Lease assets (restated)	\$ 4,648,885	\$ -	\$ 4,648,885
Less: Accumulated amortization	<u>(244,678)</u>	<u>(122,339)</u>	<u>(367,017)</u>
Total Lease Assets, Net	<u>\$ 4,404,207</u>	<u>\$ (122,339)</u>	<u>\$ 4,281,868</u>
SBITA assets	\$ 98,914	\$ 72,147	\$ 171,061
Less: Accumulated amortization	<u>(23,534)</u>	<u>(40,424)</u>	<u>(63,958)</u>
Total SBITA Assets, Net	<u>\$ 75,380</u>	<u>\$ 31,723</u>	<u>\$ 107,103</u>

Long-Term Debt

As of June 30, 2024, the Authority's long-term debt totals \$22,438,827.

The Authority's long-term debt is presented as follows:

Change in Long-Term Debt

	<u>Balance</u> <u>July 1, 2023</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2024</u>
Long-term notes and bonds	\$ 22,987,294	\$ (1,096,940)	\$ 21,890,354
Compensated absences	<u>451,265</u>	<u>97,208</u>	<u>548,473</u>
	<u>\$ 23,438,559</u>	<u>\$ (999,732)</u>	<u>\$ 22,438,827</u>

GENERAL TRENDS AND SIGNIFICANT EVENTS

Because of an abundance of available and undeveloped land, the Authority has substantial growth potential in Henry County. Nevertheless, it's important to clarify that the growth stemming from new developments is not foreseen to substantially influence the Authority's water and sewage disposal revenues in the immediate future.

The County continues to market and develop its newest industrial park, Commonwealth Crossing Business Centre. The park consists of over 700 acres of land, with approximately half of it graded to date. This industrial park is being marketed by the County's economic development officials. In July 2018, Press Glass, Inc., the largest independent flat glass processing operation in Europe, announced it would be the first industry to locate at this park, with an investment of \$43 million to establish a manufacturing operation. In fiscal year 2021, Press Glass, Inc. completed construction of this new facility. In August 2023, Press Glass, Inc. announced another expansion to this facility of \$155 million which is currently in process. In fiscal year 2021, Crown Cork & Seal USA, Inc., a leading supplier of metal food and beverage cans, announced it was locating at the park with an investment of \$145 million. The company started construction of its manufacturing facility in fiscal year 2021 and soon after announced it was adding an additional \$20 million investment to the facility, making the total investment \$165 million. The facility was completed in fiscal year 2023 and is now one of the Authority's largest customers. In January 2023, the Commonwealth of Virginia announced it was awarding the County a \$22.2 million grant to go towards grading Lot 2 at the park. In July 2023, the Harvest Foundation announced it was awarding a grant of \$6 million to the County for additional funds needed on this grading project. Once the Lot 2 grading project is completed, it will be the only site in Virginia with more than 150 acres, full utilities, water and sewer, electric, natural gas, fiber and telecom, and rail-served. The grading of Lot 2 began in fiscal year 2024 and is anticipated to be completed in fiscal year 2026. The County continues to explore funding to grade additional undeveloped land at the park for future expansion.

In addition, the County-owned Patriot Centre Industrial Park has available graded pads it is marketing. The park also has undeveloped land for future development to market. In September 2021, Schock Manufacturing, Inc., a German manufacturer of quartz and granite sinks, announced it was acquiring the County shell building and investing \$85 million to locate a manufacturing facility in the County. In fiscal year 2024, the company announced it was not going to locate in Henry County and the County purchased the shell building back from the company which is being marketed by the County economic development officials. In fiscal year 2024 the County entered into an agreement with Marlboro Development Team to construct, own and market a shell building on Tract 2 of the park. This project is anticipated to start in fiscal year 2025.

Due to current water consumption and to position the Authority for future growth, the Authority applied for and received approval to increase its permitted water withdrawal from the Smith River and also the expansion of its water treatment plant to allow for increased capacity from 4 million gallons per day to 6 million gallons per day. The Authority completed the upgrade of the Philpott Water Treatment plant in fiscal year 2021 to allow for the increased capacity. In early fiscal year 2025, the Authority finalized an agreement to purchase an additional 3 million gallons per day capacity from the US Army Corps of Engineers, giving the authority a potential future capacity of 9 million gallons per day.

Between fiscal years 2017 and 2022, the Authority was approved by the Virginia Department of Health (VDH) for three grants totaling \$1,346,500 in principal forgiveness loans (grant) and \$243,500 in loans to replace lead joint cast iron water pipe and lead water service lines in the water distribution system in the Fieldale community. In November 2022, the Authority was notified it had been awarded an American Rescue Plan Act (ARPA) grant through the Virginia Department of Health in the amount of \$6,165,600 to replace all remaining lead lines in the Fieldale community. This project is anticipated to start in fiscal year 2025.

In September 2019, the Authority was initially approved by the Virginia Department of Health (VDH) for a funding package for the Preston Road Water Extension Project. In December of 2021, the funding package was revised to increase the offer to a final amount of \$4,368,000. The final package consisted of a \$1,310,400 principal forgiveness (grant) and a \$3,057,600 loan at 2.00% for 30 years. The Authority closed on this financing in February of 2022. This line was completed in fiscal year 2024. This water line extension project has become the primary source of water from the Philpott water plant to southern Henry County, providing more reliable water service to this area of the County. It also took two well systems offline, providing the customers on these well systems with more reliable and higher-quality water.

In September 2022, the Authority was notified by the Virginia Department of Environmental Quality (DEQ) of tentative approval of financial assistance in the form of loan assistance from the Virginia Clean Water Revolving Loan Control Board for Authority projects related to Villa Heights Sewer Improvements, Bassett-Walker Lagoon Closure, and Piedmont Estates Lagoon Closure. Final approval of the loan and principal forgiveness offers were approved in June 2023. After consideration of the offers, the Authority decided only to accept the offer for the Villa Heights Sewer rehab, which consisted of a loan of \$5,671,595 at .5% interest and principal forgiveness (grant) of \$298,505. The project is anticipated to start in fiscal year 2025.

In January 2023, the Authority was awarded a grant by the Department of Commerce's Economic Development Administration (EDA) in the amount of \$958,960 to be used to extend sewer lines west along US Route 58 to Carver Road. The total cost of the project is \$1.2 million, and construction is expected to begin in fiscal year 2025 with completion in fiscal year 2025.

In December 2023, the Authority was notified by the Virginia Department of Environmental Quality (DEQ) of tentative approval of financial assistance in the form of loan assistance from the Virginia Clean Water Revolving Loan Control Board for sanitary sewer and manhole rehabilitation in the Koehler area of the County. The financing consists of \$2,494,100 loan at .5% and principal forgiveness (grant) of \$1,068,900. It is anticipated this project will begin in fiscal year 2025.

In February 2024, the Authority was awarded a principal forgiveness grant of \$250,000 from the Federal Drinking Water State Revolving Fund through the Virginia Department of Health (VDH) to prepare a system wide inventory of lead service lines in the water system. This will provide a foundation for replacement of those lines in the future. This project is anticipated to start in fiscal year 2025.

The County was awarded grants in fiscal year 2024 from Federal Emergency Management Agency (FEMA) through the Virginia Department of Emergency Management (VDEM) to purchase generators at Authority facilities. One grant in the amount of \$547,575 will provide generators at the Oak Level and 10th Street booster pump stations. A second grant in the amount of \$121,275 will provide a generator at the Rangely sewer lift station. The installation of these generators is anticipated to be completed in fiscal year 2025.

To position the Authority for future growth and to control future costs the Authority continues to evaluate whether to re-open its Lower Smith River plant as a wastewater treatment facility. This plant previously operated as a wastewater treatment facility before being converted to a pump station over twenty years ago. The Authority is working with engineers to evaluate re-opening the facility.

FINANCIAL CONDITION

The Authority's financial condition remained good at year end with adequate liquid assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans, and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets and deferred outflows of resources decreased by \$2,362,805, or 2.21%, while net position decreased by \$538,796 or .73%. Accounts receivable, net at year end was \$1,280,348 compared to \$1,335,508 for fiscal year 2023. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2024 and 2023 was \$27,129 and \$50,765, respectively. Recovery of bad debts previously written off amounted to \$9,419 and \$9,820 in 2024 and 2023, respectively.

RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, gain (loss) on sale of property, and capital contributions. Revenues, including capital contributions, totaled \$14,301,095 compared to \$14,119,608 last year, a 1.29% increase.

DEBT

At year end, the Authority had \$21,846,689 in long-term debt (before deferrals and compensated absences) with \$1,303,232 coming due in 2025. More detailed information about the Authority's long-term debt is presented in Note 9 to the financial statements.

One area that demonstrates the Authority's financial ability to pay current debt service (principal and interest) is seen in its debt service coverage, which is shown below. The financing agreement covenant requires the Authority to establish rates, fees, and other charges for the use of and for services furnished by the Authority and collection procedures so that in each fiscal year net revenues and available cash reserves are less than 1.2 times the debt service (principal and interest) for the fiscal year. Cash reserves available were \$21.1 million for 2024 and \$22.8 million for 2023. The following table calculates debt service coverage for fiscal years 2024 and 2023 including the available cash reserves:

	(In Millions of Dollars)		
	<u>2024</u>	<u>2023</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 13.14	\$ 12.78	2.8%
Unrestricted investment income	<u>1.03</u>	<u>0.61</u>	68.9%
Total revenue	14.17	13.39	5.8%
Total operating expenses (less depreciation, interest, and amortization)	<u>9.58</u>	<u>9.24</u>	3.7%
Net revenue	4.59	4.15	10.6%
Unrestricted cash - beginning of year	<u>22.83</u>	<u>21.82</u>	4.6%
Available for Debt Service	<u>\$ 27.42</u>	<u>\$ 25.97</u>	5.6%
Annual Debt Service	<u>\$ 2.12</u>	<u>\$ 1.76</u>	20.5%
Debt Service Coverage	<u>12.61</u>	<u>14.74</u>	-14.4%

FINAL COMMENTS

Fiscal year 2024 continued the trend of positive financial performance by the Authority. This positive performance is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the General Manager, Henry County Public Service Authority, P. O. Box 69, Collinsville, Virginia 24078, telephone 276-634-4600.

FINANCIAL STATEMENTS

Henry County Public Service Authority

Statements of Net Position

June 30, 2024 and 2023

	<u>2024</u>	<u>Restated 2023</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 21,092,807	\$ 22,832,518
Accounts receivable, net	1,280,348	1,335,508
Unbilled revenue	493,241	488,729
Lease receivable, current	53,373	77,395
Inventory	<u>681,334</u>	<u>389,222</u>
Total Current Assets	23,601,103	25,123,372
Capital Assets		
Nondepreciable	4,461,934	6,870,941
Depreciable	68,786,209	66,990,961
Lease assets, net	4,281,868	4,404,207
Intangible SBITA assets, net	<u>107,103</u>	<u>75,380</u>
Total Capital Assets	77,637,114	78,341,489
Other Noncurrent Assets		
Restricted investments	2,505,703	2,394,268
Lease receivable, net of current portion	<u>661,604</u>	<u>714,976</u>
Total Other Noncurrent Assets	3,167,307	3,109,244
Total Assets	104,405,524	106,574,105
Deferred Outflows of Resources		
Pension	279,955	456,000
OPEB	<u>108,344</u>	<u>126,523</u>
Total Deferred Outflows of Resources	388,299	582,523
Total Assets and Deferred Outflows of Resources	<u>\$ 104,793,823</u>	<u>\$ 107,156,628</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	\$ 563,098	\$ 1,018,089
Interest payable	387,115	341,555
Accrued expenses and payables	95,343	40,654
Customer deposits	1,010,411	977,935
Current portion of lease liabilities	-	-
Current portion of SBITA liabilities	48,803	24,706
Current portion of compensated absences	54,847	45,127
Current maturities of long-term liabilities	<u>1,310,524</u>	<u>1,245,586</u>
Total Current Liabilities	3,470,141	3,693,652
Long-Term Liabilities		
Due to other governments - Pittsylvania County	628,522	719,928
OPEB liabilities	184,525	235,071
Lease liabilities, net of current portion	4,604,085	4,604,085
SBITA liabilities, net of current portion	25,761	27,417
Net pension liability	885,025	899,146
Compensated absences, net of current portion	493,626	406,138
Notes payable, net of current portion	<u>20,579,830</u>	<u>21,741,708</u>
Total Long-Term Liabilities	27,401,374	28,633,493
Total Liabilities	30,871,515	32,327,145
Deferred Inflows of Resources		
OPEB	119,239	160,817
Leases	638,956	728,342
Pension	<u>236,090</u>	<u>473,505</u>
Total Deferred Inflows of Resources	994,285	1,362,664
Net Position		
Net investment in capital assets	51,068,111	50,697,987
<i>Restricted</i>		
Debt covenants	2,505,703	2,394,268
Unrestricted	<u>19,354,209</u>	<u>20,374,564</u>
Total Net Position	72,928,023	73,466,819
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 104,793,823</u>	<u>\$ 107,156,628</u>

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

Henry County Public Service Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>Restated 2023</u>
Operating Revenues		
Water and sewer charges	\$ 12,423,035	\$ 12,197,716
Lease revenues	89,386	86,681
Connection fees	218,643	149,885
Miscellaneous	<u>404,640</u>	<u>344,230</u>
Total Operating Revenues	13,135,704	12,778,512
Operating Expenses		
Water and sewer treatment	5,217,943	4,537,240
Depreciation	3,816,288	3,619,875
Amortization - lease assets	122,339	122,339
Amortization - SBITA assets	40,424	23,534
Maintenance - transmission and collection lines	1,561,983	1,455,553
Administration	1,541,681	1,479,672
Bad debts	27,129	50,765
Customer service	616,540	572,757
Engineering and mapping	433,817	427,670
Maintenance - vehicle and equipment	222,667	211,928
Management information systems	308,633	238,989
Meter reading	140,927	135,547
Service center	64,285	52,008
Safety	<u>79,060</u>	<u>82,602</u>
Total Operating Expenses	14,193,716	13,010,479
Operating Income (Loss)	(1,058,012)	(231,967)
Non-Operating Revenues (Expenses)		
Interest income	1,037,135	605,983
Gain (loss) on sale of properties	(52,736)	13,146
Interest expense and bond costs	<u>(646,175)</u>	<u>(587,390)</u>
Net Non-Operating Revenues (Expenses)	338,224	31,739
Change in Net Position Before Contributions	(719,788)	(200,228)
Capital Contributions		
Federal grants	178,568	721,967
Other grants	<u>2,424</u>	<u>-</u>
Total Capital Contributions	180,992	721,967
Change in Net Position	(538,796)	521,739
Total Net Position - Beginning of Year	<u>73,466,819</u>	<u>72,945,080</u>
Total Net Position - End of Year	\$ 72,928,023	\$ 73,466,819

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

Henry County Public Service Authority

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>Restated 2023</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 13,102,313	\$ 12,621,890
Cash received from lease revenues	89,386	86,681
Cash paid for goods and services	(6,355,041)	(5,130,212)
Cash paid to employees and fringes	(4,576,711)	(4,393,282)
Net Cash Provided by Operating Activities	<u>2,259,947</u>	<u>3,185,077</u>
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	180,992	721,967
Due to Pittsylvania County	(91,406)	(65,327)
Lease receivable	77,394	53,986
SBITA liability	22,441	52,123
Deferred inflows - lease	(89,386)	(66,332)
Purchase of SBITA assets	(72,147)	(98,914)
Purchase of capital assets	(3,288,973)	(3,339,424)
Bond proceeds	385,958	1,741,632
Bond principal payments	(1,473,935)	(1,174,883)
Bond interest payments	(609,578)	(563,257)
Net Cash Used in Capital and Related Financing Activities	<u>(4,958,640)</u>	<u>(2,738,429)</u>
Cash Flows from Investing Activities		
Interest income	1,037,135	605,983
Proceeds from sale of property	33,282	13,146
Net change in investments	(111,435)	(50,017)
Net Cash Provided by Investing Activities	<u>958,982</u>	<u>569,112</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,739,711)</u>	1,015,760
Cash and Cash Equivalents - Beginning of Year	<u>22,832,518</u>	<u>21,816,758</u>
Cash and Cash Equivalents - End of Year	<u>\$ 21,092,807</u>	<u>\$ 22,832,518</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (1,058,012)	\$ (231,967)
Adjustments to reconcile operating income (loss)		
Depreciation	3,816,288	3,619,875
Amortization of leases	122,339	122,339
Amortization of SBITA	40,424	23,534
Bad debts	27,129	50,765
Change in assets and liabilities		
<i>Decrease (Increase) in</i>		
Accounts receivable	28,031	(116,508)
Inventory	(292,112)	(37,431)
Deferred outflows - OPEB	18,179	(16,976)
Deferred outflows - pension	176,045	249,808
Unbilled revenue	(4,512)	(22,183)
<i>Increase (Decrease) in</i>		
Accounts payable	(454,565)	(73,387)
OPEB liabilities	(50,546)	(27,632)
Deferred inflows - OPEB	(41,578)	(25,971)
Compensated absences	97,208	(46,047)
Net pension liability	(14,121)	939,376
Deferred inflows - pension	(237,415)	(1,240,293)
Customer deposits	32,476	17,985
Accrued expenses	54,689	(210)
Net Cash Provided by Operating Activities	<u>\$ 2,259,947</u>	<u>\$ 3,185,077</u>

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

Henry County Public Service Authority

Statements of Fiduciary Net Position

As of June 30, 2024 and 2023

	<u>2024</u> <u>OPEB</u> <u>Trust Fund</u>	<u>2023</u> <u>OPEB</u> <u>Trust Fund</u>
Assets		
Investment - restricted	\$ <u>332,780</u>	\$ <u>292,169</u>
Total Assets	\$ <u>332,780</u>	\$ <u>292,169</u>
Liabilities and Net Position		
Liabilities	\$ -	\$ -
Net Position		
Restricted for OPEB	<u>332,780</u>	<u>292,169</u>
Total Liabilities and Net Position	\$ <u>332,780</u>	\$ <u>292,169</u>

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

Henry County Public Service Authority

Statements of Changes in Fiduciary Net Position

As of June 30, 2024 and 2023

	<u>2024</u> <u>OPEB</u> <u>Trust Fund</u>	<u>2023</u> <u>OPEB</u> <u>Trust Fund</u>
Additions		
Contributions from employer	\$ 13,000	\$ 13,000
Investment earnings:		
Other income (loss)	(201)	(55)
Net unrealized gain or loss	27,999	20,940
Realized gain on sale of assets	<u>274</u>	<u>315</u>
Total Investment Earnings	28,072	21,200
 Total Additions (Deductions)	 41,072	 34,200
Deductions		
Administrative expenses	<u>461</u>	<u>744</u>
 Net Increase in Fiduciary Net Position	 40,611	 33,456
 Net Position - Beginning	 <u>292,169</u>	 <u>258,713</u>
 Net Position - Ending	 <u><u>\$ 332,780</u></u>	 <u><u>\$ 292,169</u></u>

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

Henry County Public Service Authority

Notes to the Financial Statements

Year Ended June 30, 2024

1 Organization, Description of the Entity, and Its Activities

The Henry County Public Service Authority (the "Authority") was formed in 1965 under the provisions of the Virginia Water and Sewer Authorities Act, Code of Virginia (1950), as amended. The Authority provides water and sewer services to communities in Henry County, Virginia (the "County"). The Authority is governed by a six-member Board of Directors who are appointed for four-year staggered terms by the Board of Supervisors of the County. Since the Board of Supervisors cannot impose its will on the Authority and since there is no potential financial benefit or burden in the relationship, the County is not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of the County.

2 Significant Accounting Policies

Financial Statement Presentation

The financial statements of the Henry County Public Service Authority have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Authority's accounting policies are described below:

Basis of Accounting

The Authority's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water and sewer sales. Operating expenses include the cost of water and sewer treatment, maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand; demand, savings, or money market accounts; and certificates of deposit or short-term investments with purchased maturities of three months or less.

Unbilled Revenue

Unbilled revenue consists of amounts earned as of year-end, but not yet billed because billing dates do not coincide with year-end.

Allowance for Doubtful Accounts

The Authority has calculated its allowance for doubtful accounts using historical collection data and specific account analysis of all accounts greater than or equal to ninety days aged.

Inventory

Inventory consists of meters, pumps, parts, and other supplies on hand at year end, reported at the lower of cost (first-in, first-out) or market. Inventory is generally used for construction and for operation and maintenance work, and is not held for resale.

Capital Assets

Capital assets are recorded at original cost at the time of acquisition. Donated assets are recorded at their fair market value on the date donated. Repair and maintenance items are expensed when incurred. Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and structures	40-50 years
Sewer system equipment	10-50 years
Water system equipment	10-40 years
Other equipment	5-20 years

Leases

As lessee, the Authority recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements and recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority uses its estimated incremental borrowing rate as the discount rate for leases. The Authority's estimated incremental borrowing rate is based on historical market data and credit spread based on market data points compared to the lease commencement date.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

As lessor, the Authority recognizes leases receivable and deferred inflows of resources in the government-wide and governmental fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

Subscription-Based IT Arrangements

The Authority has various subscription-based IT arrangements (SBITAs) requiring recognition. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The Authority recognizes intangible right-to-use subscription assets (subscription assets) and corresponding subscription liabilities with an initial value of \$5,000, in individually or in the aggregate, in the government-wide financial statements. At the commencement of the subscription, the subscription liability is measured at the present value of payments expected to be made during the subscription liability term (less any contract incentives). The subscription liability is reduced by the principal portion of payments made. The subscription asset is measured at the initial amount of the subscription liability payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

Key estimates and judgments related to subscription-based IT arrangements include how the Authority determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Authority uses the interest rate stated in the subscription contract. When the interest rate charged is not provided, the Authority uses its estimated incremental borrowing rate as the discount rate for subscriptions.
- The subscription term includes the noncancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with other capital assets and subscription liabilities are reported with long-term debt on the statement of net position.

Compensated Absences

The vacation policy provides for the accumulation of earned vacation leave, depending on years of service with a maximum accumulation of 240 hours. The sick leave policy provides for sick leave to be earned at the rate of eight hours per month of service with a maximum accumulation of 720 hours. Accumulated vacation is paid at 100%, and sick leave is paid at 25%, upon termination of employment. These amounts are accrued when incurred.

Pensions

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

Other Postemployment Benefits Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Henry County Public Service Authority's OPEB Plan for Retiree's Health Insurance and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. See Notes to the financial statement for more information regarding the Plan.

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the VRS Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Health Insurance Credit Program

The Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. The Political Subdivision Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net Political Subdivision Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Health Insurance Credit Program OPEB, and the Political Subdivision Health Insurance Credit

Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Health Insurance Credit Program; and the additions to/deductions from the VRS Political Subdivision Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenues

The Authority records water and sewer revenues as billed to its customers principally on a monthly basis. Fees charged for the privilege of connecting to the system are credited to income.

Property and Equipment

Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets.

Use of Estimates

The preparation of financial statements in conformity with 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.

Budgets

The Authority adopts an annual budget for informative and fiscal planning purposes only. The budget is not intended to be a legal control on expenses. Budgets are adopted on the accrual basis of accounting with the exception that depreciation and amortization are not budgeted.

Amortization

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Amortization of bond premiums or discounts is included in interest expense. Bonds payable are reported net of the applicable bond premium or discount. The deferred amount resulting from bond refunding is amortized over the shorter of the life of the new bond issue or the refunded issue.

Net Position

Net position is the difference between assets and liabilities. Net position invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

Net Position Flow Assumption

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

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 until then.

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 until that time.

Adoption of New GASB Statements

The Authority adopted the following GASB statements during the year ended June 30, 2024:

In April 2022, GASB Issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain requirements of this statement have been implemented as of June 30, 2022. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The requirements of this statement are effective for the fiscal year ending June 30, 2024 for the Authority.

In June 2022, GASB Issued Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The requirements of this statement are effective for the fiscal year ending June 30, 2024 for the Authority.

GASB Statement No. 101, *Compensated Absences* – The objective of this Statement is to better meet the information needs of the financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The requirements of this statement are effective for the fiscal year ending June 30, 2024 for the Authority.

3 Cash Equivalents

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 amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Investment Policy

In accordance with state statutes, the current investment policy of the Authority authorizes investments in obligations of the United States and agencies thereof, Bankers’ Acceptances, commercial paper, repurchase agreements, tax exempt and taxable

Municipal Bonds, the Virginia State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the Authority's position in the pools is the same as the value of the pool shares.

The Authority's investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below. The Authority's investments are not subject to foreign currency risk.

Credit Risk

As required by State statute, the policy requires that commercial paper have a short-term debt rating of no less than "A-1" or "P-1" or "F-1" (or its equivalent) from Moody's Investors Service or Standard & Poor's or Fitch. Municipal Bonds must have a rating of "AA" or higher by at least two of the following National Credit Rating Agencies: Moody's Investors Service, Standard & Poor's or Fitch.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances, or money market mutual funds, the Authority has established stringent credit standards for these investments to minimize portfolio risk.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. The Policy establishes limitations on the holdings as follows:

1. The portfolio will be diversified with no more than 5% of the value of the portfolio invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or Agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit.
2. The maximum percentage of the Investment Portfolio in each eligible security type is limited as follows:

U.S. Treasury	100%
Agency Securities (no more than 35% in any one agency)	100%
Money Market Mutual Funds	100%
Repurchase Agreements	40%
Municipal Obligations (no more than 5%* in any one issuer)	20%
Bankers Acceptances (no more than 5%* in any one bank)	20%
Negotiable Certificates of Deposit (no more than 5%* in any one bank)	20%
Commercial Paper (no more than 5%* in any one issuing corporation)	20%
Virginia Local Government Investment Pool	100%
Virginia State Non-Arbitrage Program	100% of Bond Proceeds
<i>*or \$1 Million, whichever is greater</i>	

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase.

Custodial Credit Risk

The Policy requires that all investment securities purchased by the Authority be held by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, all of the Authority's investments are held in a custodian's trust department in the Authority's name.

The Authority's investments consist of the following:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Government bonds	\$ 58,437	5 months or less
	<u>\$ 58,437</u>	

Authority's investments by credit rating consist of the following:

<u>Rating (Moody's or S&P)</u>	<u>Fair Value</u>
AA+ or higher	\$ 58,437
	<u>\$ 58,437</u>

Cash and investments are reflected in the financial statements as follows:

Deposits and Investments

Cash on hand	\$ 1,600
Demand deposits	23,538,473
Bonds	58,437
	<u>\$ 23,598,510</u>

Statement of Net Position

Deposits and Investments

Cash and cash equivalents	<u>\$ 23,598,510</u>
	<u>\$ 23,598,510</u>

Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Authority has the following recurring fair value measurements as of June 30, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by Fair Value Level				
U.S. Government bonds	\$ -	\$ 58,437	\$ -	\$ 58,437
	<u>\$ -</u>	<u>\$ 58,437</u>	<u>\$ -</u>	<u>\$ 58,437</u>

4 Amount of Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Management estimates the allowance account to be \$30,447 and \$50,050 as of June 30, 2024 and 2023, respectively.

5 Due to Other Governments

The Authority has entered into a long-term agreement with Pittsylvania County concerning the construction of water lines. The agreement allows the Authority to repay Pittsylvania County for the cost of these lines based on water usage by the County. The original contract amount was \$1,250,000. The amount repaid for fiscal year 2024 was \$91,406 leaving a balance of \$628,522 as of June 30, 2024.

6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2024:

	Balance July 1, 2023	Acquired (Increased)	Disposed (Decreased)	Balance June 30, 2024
Capital assets, not depreciated				
Land and land improvements	\$ 607,203	\$ -	\$ 5,600	\$ 601,603
Construction in Progress				
Water	4,684,275	3,955,712	6,249,240	2,390,747
Sewer	1,579,463	154,648	264,527	1,469,584
Total Construction in Progress	6,263,738	4,110,360	6,513,767	3,860,331
Total Capital Assets, Not Depreciated	6,870,941	4,110,360	6,519,367	4,461,934
Capital assets, depreciated				
Buildings and leasehold improvements	17,085,456	-	38,644	17,046,812
Water and sewer system	139,767,436	5,482,519	211,667	145,038,288
Trucks and autos	2,655,782	166,633	185,936	2,636,479
Office equipment	202,074	43,228	13,752	231,550
Total Capital Assets, Depreciated	159,710,748	5,692,380	449,999	164,953,129
Less: Accumulated depreciation and amortization				
Land improvements	3,270	89	-	3,359
Buildings and leasehold improvements	3,467,154	407,341	6,843	3,867,652
Water and sewer system	87,061,505	3,224,504	166,880	90,119,129
Trucks and autos	2,064,917	165,733	185,936	2,044,714
Office equipment	122,941	18,621	9,496	132,066
Total Accumulated Depreciation	92,719,787	3,816,288	369,155	96,166,920
Total Capital Assets Depreciated, Net	66,990,961	1,876,092	80,844	68,786,209
Total Capital Assets, Net	\$ 73,861,902	\$ 5,986,452	\$ 6,600,211	\$ 73,248,143

	<u>Restated Balance July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2024</u>
Lease assets				
Infrastructure	\$ 4,648,885	\$ -	\$ -	\$ 4,648,885
Less: accumulated amortization for				
Infrastructure	<u>244,678</u>	<u>122,339</u>	<u>-</u>	<u>367,017</u>
Lease assets, Net	<u>\$ 4,404,207</u>	<u>\$ 122,339</u>	<u>\$ -</u>	<u>\$ 4,281,868</u>

**Amortization
Expense**

Infrastructure	<u>\$ 122,339</u>
Total	<u>\$ 122,339</u>

	<u>Balance July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2024</u>
SBITA assets				
Software arrangements	\$ 98,914	\$ 72,147	\$ -	\$ 171,061
Less: accumulated amortization for				
Software arrangements	<u>23,534</u>	<u>40,424</u>	<u>-</u>	<u>63,958</u>
SBITA, Net	<u>\$ 75,380</u>	<u>\$ 31,723</u>	<u>\$ -</u>	<u>\$ 107,103</u>

**Amortization
Expense**

SBITA amortization expense	<u>\$ 40,424</u>
Total	<u>\$ 40,424</u>

7 Leases

Authority as Lessor

The Authority has entered into an agreement as lessor for tower rights for cellular and technology communications. The lease agreements are summarized as follows:

<u>Description</u>	<u>Date</u>	<u>Payment Terms</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Balance June 30, 2024</u>
USCOC - Tower and ground space	8/1/2017	10 years	Varies, see schedule below	2.50%	\$ 101,536
American Towers, LLC - Tower and ground space	10/28/2013	30 years	Varies, see schedule below	2.50%	602,284
New Cingular Wireless, LLC (AT&T, Inc.)	8/1/2019	5 years	Varies, see schedule below	2.50%	2,549
3374 River Road Lawless Welding	1/1/2023	3 years	\$455/month	4.00%	8,608
Totals					<u>\$ 714,977</u>

Remaining amounts to be received associated with these leases are as follows:

<u>Fiscal Year</u>	<u>Receivable Received</u>	<u>Interest Income</u>	<u>Total</u>
2025	\$ 53,373	\$ 17,331	\$ 70,704
2026	51,345	15,951	67,296
2027	51,696	14,669	66,365
2028	21,564	13,686	35,250
2029	20,157	13,198	33,355
2030-2034	127,878	57,245	185,123
2035-2039	181,788	38,080	219,868
2040-2044	<u>207,176</u>	<u>11,694</u>	<u>218,870</u>
Totals	<u>\$ 714,977</u>	<u>\$ 181,854</u>	<u>\$ 896,831</u>

<u>Lease-Related Revenue</u>	<u>Year Ending June 30, 2024</u>
Lease revenue	\$ 89,386
Interest revenue	<u>19,102</u>
Total	<u>\$ 108,488</u>

	<u>Balance July 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2024</u>	<u>Due Within One Year</u>
Lease Receivables	\$ 792,371	\$ -	\$ 77,394	\$ <u>714,977</u>	\$ 53,373

Authority as Lessee

The Authority entered into a lease arrangement on August 26, 2019 with CCAT, Inc., a Virginia corporation, to lease certain ground space (Ground Space Lease) and constructed equipment (Deed of Tower) for forty years. The imputed interest rate is 2.5%. The initial right-to-use asset was \$4,648,885 to be amortized over forty years.

<u>Description</u>	<u>Date</u>	<u>Payment Terms</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Balance June 30, 2024</u>
CCAT, Inc.	8/26/2019	40	Varies, see schedule below	2.50%	<u>\$4,604,085</u>

Remaining principal and interest payments on leases are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ -	\$ 44,800	\$ 44,800
2026	-	44,800	44,800
2027	-	65,300	65,300
2028	-	194,000	194,000
2029	-	195,940	195,940
2030-2034	204,888	2,416,146	2,621,034
2035-2039	530,362	130,416	660,778
2040-2044	657,801	-	657,801
2045-2049	805,091	-	805,091
2050-2054	975,022	-	975,022
2055-2059	<u>1,430,921</u>	<u>-</u>	<u>1,430,921</u>
Totals	<u>\$ 4,604,085</u>	<u>\$ 3,091,402</u>	<u>\$ 7,695,487</u>

<u>Lease Expense</u>	<u>Year Ending June 30, 2024</u>
Amortization expense by class of underlying asset	
Infrastructure	\$ 122,339
Interest on lease liabilities	<u>120,100</u>
Total	<u>\$ 242,439</u>

	<u>Restated Balance July 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2024</u>	<u>Due Within One Year</u>
Lease liability	\$ 4,604,085	\$ -	\$ -	\$ 4,604,085	\$ -

8 Subscription-Based Information Technology Arrangements

Subscription-Based Information Technology Arrangements (SBITA) liabilities for the Authority are summarized as follows:

<u>Description</u>	<u>Date</u>	<u>Payment Terms</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Balance June 30, 2024</u>
Coencorp Fuel Software	7/1/2022	Annually for 4 years	\$1,791/year	4.00%	\$ 3,378
Utility Cloud Premium	2/28/2024	Annually for 3 years	\$25,000/year	4.00%	47,147
Utility Cloud Software	10/15/2022	Annually for 3 years	\$25,000/year	4.00%	<u>24,039</u>
					<u>\$ 74,564</u>

Future subscription payments under SBITA agreements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 48,803	\$ 2,988	\$ 51,791
2026	<u>25,761</u>	<u>1,030</u>	<u>26,791</u>
	<u>\$ 74,564</u>	<u>\$ 4,018</u>	<u>\$ 78,582</u>

Amortization expense by class of underlying asset is as follows:

	<u>Year Ending June 30, 2024</u>
Software	\$ 40,424
Interest	<u>2,085</u>
Total	<u>\$ 42,509</u>

Summary of changes in SBITA agreements is as follows:

	<u>Balance July 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2024</u>	<u>Due Within One Year</u>
Subscriptions	\$ 52,123	\$ 72,147	\$ 49,706	\$ 74,564	\$ 48,803

9 Long-Term Debt

The following is a summary of the Authority's long-term liability activity for the year:

<u>Details of Long-Term Indebtedness</u>	<u>Balance July 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2024</u>	<u>Due Within One Year</u>
2007 Bonds Payable	\$ 784,103		\$ 166,800	\$ 617,303	\$ 170,967
2015 VRA Bond	805,000	-	120,000	685,000	125,000
2015A VRA Bond	1,162,764		82,693	1,080,071	84,397
2015B VRA Bond	1,615,768	-	120,028	1,495,740	120,028
2015C VRA Bond	1,006,508	-	32,919	973,589	33,664
2015D VRA Bond	1,094,712	-	35,804	1,058,908	36,614
2018A VRA Bond	561,902	-	15,695	546,207	16,114
2018B VRA Bond	12,994,604	-	622,958	12,371,646	638,732
2021A VRA Bond	237,663	-	237,663	-	-
2022A VRA Bond (not fully disbursed)	<u>3,057,600</u>	<u>-</u>	<u>39,375</u>	<u>3,018,225</u>	<u>77,716</u>
Subtotal	23,320,624	-	1,473,935	21,846,689	1,303,232
Less: Loan funds not disbursed					
VRA Series 2022A Bond	<u>(385,958)</u>	<u>-</u>	<u>(385,958)</u>	<u>-</u>	<u>-</u>
	<u>(385,958)</u>	<u>-</u>	<u>(385,958)</u>	<u>-</u>	<u>-</u>
Long-Term Debt before Deferrals	22,934,666	-	1,087,977	21,846,689	1,303,232
Deferred Amounts					
Unamortized premium on 2015 VRA Bond	<u>52,628</u>	<u>-</u>	<u>8,963</u>	<u>43,665</u>	<u>7,292</u>
	<u>52,628</u>	<u>-</u>	<u>8,963</u>	<u>43,665</u>	<u>7,292</u>
Long-Term Debt	22,987,294	-	1,096,940	21,890,354	1,310,524
Compensated absences	<u>451,265</u>	<u>97,208</u>	<u>-</u>	<u>548,473</u>	<u>54,847</u>
Total Long-Term Debt	<u>\$23,438,559</u>	<u>\$ 97,208</u>	<u>\$ 1,096,940</u>	<u>\$22,438,827</u>	<u>\$1,365,371</u>

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Installment Payments</u>	<u>Installment Period</u>	<u>Balance June 30, 2024</u>
Bonds							
Water and Sewer Revenue Bond, Series 2007	2.470%	11/1/2007	2027	\$ 2,700,000	\$ 15,357	Monthly	\$ 617,303
Water and Sewer VRA Series 2015	3.4925%	8/19/2015	2036	1,615,000	Various	Semi-Annual	685,000
Water and Sewer VRA Series 2015A	2.050%	8/19/2015	2036	1,733,769	53,054	Semi-Annual	1,080,071
Water and Sewer VRA Series 2015B	0.000%	12/17/2015	2037	2,400,570	60,014	Semi-Annual	1,495,740
Water and Sewer VRA Series 2015C	2.250%	12/17/2015	2047	1,189,280	27,691	Semi-Annual	973,589
Water and Sewer VRA Series 2015D	2.250%	12/17/2015	2047	1,293,500	30,117	Semi-Annual	1,058,908
Water and Sewer VRA Series 2018A	2.650%	3/9/2018	2048	621,200	15,241	Semi-Annual	546,207
Water and Sewer VRA Series 2018B	2.500%	6/21/2018	2040	14,500,000	472,028	Semi-Annual	12,371,646
Water and Sewer VRS Series 2022A	2.000%	2/11/2022	2053	3,057,600	68,858	Semi-Annual	3,018,225
							<u>\$ 21,846,689</u>

The annual requirements to amortize bond principal and related interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Deferred Amounts</u>	<u>Total LT Debt with Deferrals</u>
2025	\$ 1,303,232	\$ 485,708	\$ 7,292	\$ 1,310,524
2026	1,243,893	456,219	6,204	1,250,097
2027	1,275,180	427,830	5,606	1,280,786
2028	1,209,488	399,197	4,985	1,214,473
2029	1,140,989	373,745	4,472	1,145,461
2030-2034	6,109,726	1,474,052	13,859	6,123,585
2035-2039	5,938,540	777,171	1,247	5,939,787
2040-2044	2,090,629	250,224	-	2,090,629
2045-2049	1,009,468	104,074	-	1,009,468
2050-2053	525,544	23,883	-	525,544
	<u>\$ 21,846,689</u>	<u>\$ 4,772,103</u>	<u>\$ 43,665</u>	21,890,354
Compensated absences				548,473
				<u>\$ 22,438,827</u>

Required escrow funds for debt service, repairs and replacements, and operating needs were as follows:

Operating funds reserve	\$ 1,806,304
Replacement reserve	640,962
Debt service - 2007, 2015A, 2015B, 2018B bonds	549
Debt service - 2015C bond	27,728
Debt service - 2015D bond	30,160
	<u>\$ 2,505,703</u>

The Authority is required to maintain a debt service coverage ratio of 120% (as defined in the bond Master Trust Agreement and related amendments) and to annually obtain a consulting engineer's report to determine amounts needed to escrow for future repairs, replacements, and operating needs. The Authority received the most recent report in May 2024 for the fiscal year 2023. The management of the Authority believes it is in compliance with all requirements.

Revenue bonds require all revenues and receipts derived by the Authority to be pledged as security for the bonds. In addition, a security interest in all accounts receivable for services is granted to the issuer of the bonds.

10 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the Statements of Net Position as of June 30, 2024 and 2023 is determined as follows:

	<u>2024</u>	<u>Restated 2023</u>
Net Investment in Capital Assets		
Capital Assets		
Cost of capital assets	\$ 169,415,063	\$ 166,581,689
Less: Accumulated depreciation	<u>(96,166,920)</u>	<u>(92,719,787)</u>
Book value	73,248,143	73,861,902
Lease Assets		
Cost of lease assets	4,648,885	4,648,885
Less: Accumulated amortization	<u>(367,017)</u>	<u>(244,678)</u>
Book value	4,281,868	4,404,207
SBITA Assets		
Cost of SBITA assets	171,061	98,914
Less: Accumulated amortization	<u>(63,958)</u>	<u>(23,534)</u>
Book value	107,103	75,380
Less: Capital related debt	(21,890,354)	(22,987,294)
Less: Lease liabilities	(4,604,085)	(4,604,085)
Less: Subscription liabilities	<u>(74,564)</u>	<u>(52,123)</u>
Net Investment in Capital Assets	<u>\$ 51,068,111</u>	<u>\$ 50,697,987</u>

11 Capital Contributions

Capital contributions represent proceeds from federal, state, and local agencies for the following capital projects:

<u>Source of Revenue</u>	<u>Project</u>	
Federal Funding		
VDH lead service line inventory	System Wide	\$ 1,375
VRA Sewer line 58 west	Highway 58	55,326
VRA Fieldale LSL Phase IV	Fieldale	120,813
Virginia Resources Authority	Preston Road	1,054
Virginia Risk Sharing Association	Traffic Cones	<u>2,424</u>
Total Capital Contributions		<u>\$ 180,992</u>

12 Operating Leases

The Authority leased its office space from the County for a fifteen-year term commencing November 1, 1997 and ended on October 31, 2012. The lease is renewable annually for one-year terms and has been renewed for a one-year term ending October 31, 2024. In lieu of rent, the Authority renovated a portion of the building for the County's and Authority's use. These improvements (shown as leasehold improvements) are being depreciated over the life of the lease.

13 Commitments and Contingencies

If applicable, federal programs in which the Authority participates were audited in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of the Uniform Guidance, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Special purpose grants are subject to audit to determine compliance with their requirements. Authority officials believe that if any refunds are required, they will be immaterial.

14 Litigation

The City of Martinsville ("City") on June 4, 2020, filed a suit against the Henry County Public Service Authority ("PSA") wherein it is asserted that the PSA is liable to City for a percentage of the cost of repairs to the City's sewage transmission lines. The suit is based on a 1974 Contract between the parties whereby the City agreed to transport and treat certain of the PSA's sewage. It was discovered in 2014 that the Smith River interceptor and other components of the City's sewage transmission system required immediate remediation and it is alleged by the City that the PSA is liable to it for a portion of the remediation costs based on the proportionate amount of the PSA's sewage that is transported by the City's sewage transmission facilities and treated at the City's waste water treatment plant. The amount that the PSA is liable for, according to City's pleading, is \$8,622,860.40 with interest at 6% from June 4, 2020. Since my most recent letter to you, the City has amended its pleading requesting that the Court declare that the PSA is responsible for a portion of the costs in an as yet unspecified amount for a rebuild of the Jones Creek Interceptor and ancillary costs.

An Amended Scheduling Order has been entered on May 31, 2024, moving the trial date to January 13, 2025 through January 15, 2025.

An Order was entered granting the Plaintiff leave to file a Second Amended Complaint on July 31, 2024.

Discovery is still ongoing.

The parties have attempted to resolve the issues through mediation but that has proven to be unavailing.

The PSA plans to and is vigorously contesting the case.

As with most litigation it is impossible at this stage to even guess what the outcome might be. Both parties are convinced of the rightness of their cause and it is quite possible that the Judge or a jury will have to determine the issue.

15 Pension Plan

Plan Description

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

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

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RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

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

Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

PLAN 2

About Plan 2

Same as Plan 1.

Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

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

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

**Non-Eligible Members*

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

PLAN 1

Retirement Contributions

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

Service Credit

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

Vesting

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

Members are always 100% vested in the contributions that they make.

PLAN 2

Retirement Contributions

Same as Plan 1.

Service Credit

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID RETIREMENT PLAN

Retirement Contributions

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

Service Credit

Defined Benefit Component:

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

Defined Contributions Component:

Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

PLAN 1

Calculating the Benefit

The basic benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

VRS: Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for service credit earned, purchased, or granted on or after January 1, 2013.

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution not required, except as governed by law .

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

VRS: The retirement multiplier for the defined benefit component 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.

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1
Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.

Political subdivisions hazardous duty employees:
Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.

Earliest Reduced Retirement Eligibility

VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.

Political subdivisions hazardous duty employees:
Age 50 with at least five years of service credit.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

PLAN 2
Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equal 90.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

VRS: Age 60 with at least five years (60 months) of service credit.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN**
Normal Retirement Age

Defined Benefit Component:
VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

VRS: Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age plus service credit equal 90.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

VRS: Age 60 with at least five years (60 months) of service credit.

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

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

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

Disability Coverage

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

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

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

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2022 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	52
Inactive members:	
Vested inactive members	3
Non-vested inactive members	6
LTD	-
Inactive members active elsewhere in VRS	14
Active members	<u>60</u>
Total covered employees	<u><u>135</u></u>

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.

If the employer used the certified rate: Henry County Public Service Authority's contractually required contribution rate for the year ended June 30, 2024 was 7.95% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from Henry County Public Service Authority were \$251,451 and \$229,609 for the years ended June 30, 2024 and June 30, 2023, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Henry County Public Service Authority, the net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2022 rolled forward to the measurement date of June 30, 2023.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2022, 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, 2023.

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

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	34.00%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	<u>1.00%</u>	1.20%	<u>0.01%</u>
Total	<u>100.00%</u>		<u>5.75%</u>
	Inflation		<u>2.50%</u>
	Expected arithmetic nominal return*		<u>8.25%</u>

*The above allocation provides a one-year return of 8.25%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2023, 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, 2022, actuarial valuations, whichever was greater. From July 1, 2023 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

		<u>Increase (Decrease)</u>	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 15,558,557	\$ 14,659,411	\$ 899,146
Changes for the Year			
Service cost	208,139	-	208,139
Interest	1,042,225	-	1,042,225
Benefit changes	-	-	-
Assumption Changes	-	-	-
Differences between expected and actual experience	6,599	-	6,599
Contributions - employer	-	204,789	(204,789)
Contributions - employee	-	133,384	(133,384)
Net investment income	-	941,976	(941,976)
Benefit payments, including refunds	(652,641)	(652,641)	-
Administrative expenses	-	(9,443)	9,443
Other changes	-	378	(378)
Net Changes	604,322	618,443	(14,121)
Balances at June 30, 2023	<u>\$ 16,162,879</u>	<u>\$ 15,277,854</u>	<u>\$ 885,025</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's Net Pension Liability (Asset)	\$3,037,571	\$ 885,025	\$ (872,425)

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

For the year ended June 30, 2024, Henry County Public Service Authority recognized pension expense of \$151,140. At June 30, 2024, Henry County Public Service Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 28,504	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	236,090
Employer contributions subsequent to the measurement date	251,451	-
Total	<u>\$ 279,955</u>	<u>\$ 236,090</u>

\$251,451 reported as deferred outflows of resources related to pensions resulting from Henry County Public Service Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2025. 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,**

2025	\$ (145,276)
2026	(281,680)
2027	212,047
2028	7,323
2029	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2023 Annual Report. A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at varetire.org/pdf/publications/2023-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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16 Other Post-Employment Benefits - Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS	
Eligible Employees	<p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p>
Benefit Amounts	<p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> Accidental dismemberment benefit Safety belt benefit Repatriation benefit Felonious assault benefit Accelerated death benefit option
Reduction in Benefit Amounts	<p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)	<p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This amount is increased annually based on the VRS Plan 2 cost-of-living statute. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$9,254 as of June 30, 2024.</p>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2024 was 0.54% of covered employee compensation. This rate was the final approved General Assembly rate which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$17,252 and \$15,596 for the years ended June 30, 2024 and June 30, 2023, respectively.

In June 2023, the Commonwealth made a special contribution of approximately \$10.1 million to the Group Life Insurance plan. This special payment was authorized by Chapter 2 of the Acts of Assembly of 2022, Special Session I, as amended by Chapter 769, 2023 Acts of Assembly Reconvened Session, and is classified as a special employer contribution. Our proportionate share is reflected in the fringe benefits line item of our financial statements.

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

At June 30, 2024, the participating employer reported a liability of \$147,036 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2023 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, 2022, and rolled forward to the measurement date of June 30, 2023. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2023 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2023, the participating employer's proportion was .012260% as compared to .012470% at June 30, 2022.

For the year ended June 30, 2024, the participating employer recognized GLI OPEB expense of \$6,667. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2024, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 14,685	\$ 4,463
Change in assumptions	3,143	10,187
Net difference between projected and actual earnings on GLI OPEB program investments	-	5,909
Changes in proportion	4,609	5,061
Employer contributions subsequent to the measurement date	<u>17,252</u>	<u>-</u>
Total	<u>\$ 39,689</u>	<u>\$ 25,620</u>

\$17,252 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, 2025. 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,**

2025	\$	(995)
2026		(6,320)
2027		2,266
2028		847
2029		1,019
Thereafter		-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2022, 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, 2023.

Inflation	2.50%
Salary increases, including inflation - Locality - General employees	3.5% - 5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2023, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,907,052
Plan Fiduciary Net Position	<u>2,707,739</u>
GLI Net OPEB Liability (Asset)	<u><u>\$ 1,199,313</u></u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	69.30%

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.

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	34.00%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	<u>1.00%</u>	1.20%	<u>0.01%</u>
Total	<u>100.00%</u>		<u>5.75%</u>
	Inflation		<u>2.50%</u>
	Expected arithmetic nominal return*		<u>8.25%</u>

*The above allocation provides a one-year return of 8.25%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

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 employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2023, 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, 2023 on, employers are assumed to continue to contribute 113% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
State Agency's Proportionate Share of the Group Life Insurance Program Net OPEB Liability	\$ 217,953	\$ 147,036	\$ 89,699

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2023 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at varetire.org/pdf/publications/2023-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

17 Other Post-Employment Benefits - Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision Health Insurance Credit Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	
Eligible Employees	<p>The Political Subdivision Retiree Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of political subdivision employers who elect the benefit and who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.
Benefit Amounts	<p>The political subdivision's Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • At Retirement – For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. • Disability Retirement – For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.
Health Insurance Credit Program Notes:	<ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • No health insurance credit for premiums paid and qualified under LODA, however, the employee may receive the credit for the premiums paid for other qualified health plans. • Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	36
Vested inactive members	-
Active members	<u>60</u>
Total covered employees	<u><u>96</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-1402(E) 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. Henry County Public Service Authority's contractually required employer contribution rate for the year ended June 30, 2024 was 0.36% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from Henry County Public Service Authority to the Political Subdivision Health Insurance Credit Program were \$11,386 and \$10,398 for the years ended June 30, 2024 and June 30, 2023, respectively.

Net HIC OPEB Liability

Henry County Public Service Authority's net Health Insurance Credit OPEB liability was measured as of June 30, 2023. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2022, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2023.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2022, 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, 2023.

Inflation	2.50%
Salary increases, including inflation	
Locality - General Employees	3.5% - 5.35%
Investment rate of return	6.75%, net of investment investment expenses, including inflation

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a lognormal 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)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	<u>1.00%</u>	1.20%	<u>0.01%</u>
Total	<u>100.00%</u>		<u>5.75%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>8.25%</u>

*The above allocation provides a one-year return of 8.25%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including inflation of 2.50%.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2023, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2023 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC 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 HIC OPEB liability.

Changes in Net HIC OPEB Liability:

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (a) - (b)
Balances at June 30, 2022	\$ 165,616	\$ 61,018	\$ 104,598
Changes for the Year			
Service cost	1,325	-	1,325
Interest	10,946	-	10,946
Benefit changes	-	-	-
Assumption changes	-	-	-
Differences between expected and actual experience	2,044	-	2,044
Contributions - employer		10,398	(10,398)
Net investment income	-	3,664	(3,664)
Benefit payments	(9,543)	(9,543)	-
Administrative expenses	-	(87)	87
Other changes	-	106	(106)
Net Changes	4,772	4,538	234
Balances at June 30, 2023	<u>\$ 170,388</u>	<u>\$ 65,556</u>	<u>\$ 104,832</u>

Sensitivity of the Political Subdivision Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

The following presents the Political Subdivision Health Insurance Credit Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the Political subdivision's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's Net HIC OPEB Liability	\$ 122,779	\$ 104,832	\$ 89,571

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB

For the year ended June 30, 2024, Henry County Public Service Authority recognized Health Insurance Credit Program OPEB expense \$12,505. At June 30, 2024, Henry County Public Service Authority reported deferred outflows of resources and deferred inflows of resources related to Henry County Public Service Authority's Health Insurance Credit Program from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,243	\$ 6,313
Net difference between projected and actual earnings on HIC OPEB plan investments	-	432
Change in assumptions	13,942	
Changes in proportionate share	-	-
Employer contributions subsequent to the measurement date	<u>11,386</u>	<u>-</u>
Total	<u><u>\$ 29,571</u></u>	<u><u>\$ 6,745</u></u>

\$11,386 reported as deferred outflows of resources related to the HIC OPEB resulting from Henry County Public Service Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the Fiscal Year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

2025	\$ 4,698
2026	1,941
2027	3,663
2028	1,138
2029	-
Thereafter	-

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2023 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at varetire.org/pdf/publications/2023-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

18

Henry County Public Service Authority OPEB Plan for Retirees' Health Insurance

General Information About the OPEB Plan

Employer. Henry County Public Service Authority

Summary of Plan Provisions

The following is our understanding of the plan provisions for retiree coverage. Where the following differs from the official plan rules, the valuation should be revised.

Eligibility Conditions

A retiring employee participating in the Employer's medical program with at least 15 years of Authority service, and retires under the VRS plan is eligible to elect post-retirement coverage.

Eligibility for VRS Retirement

Early Retirement – Plan 1

- The employee must have 10 years of service and 50 years of age; or,
- The employee must have 5 years of service and 55 years of age.

Full Retirement – Plan 1

- The employee must have 65 years of age and vested in VRS; or,
- The employee must have 30 years of service and 50 years of age.

Early Retirement – Plan 2&Hybrid

- The employee must have 5 years of service and 60 years of age.

Full Retirement – Plan 2&Hybrid

- The employee must have reached Normal Social Security retirement age with at least 5 years of service; or,
- Age and service must equal 90.

Covered Employees

All full time employees (must be covered by the active plan at the time of retirement). Coverage ceases at age 65 for new retirees.

Type of Coverage	Employee	Spouse
Life Insurance	No post-retirement life insurance is valued.	Not applicable.
Dental Coverage	Post-retirement dental coverage is provided on an Access-only basis, retirees pay the active rate.	Same as Employee.
Vision Coverage	Post-retirement vision coverage is provided on an Access-only basis (COBRA – 18 months). Retirees pay retiree rate.	Same as Employee.
Medical Coverage <ul style="list-style-type: none"> ➤ Employee Cost Sharing ➤ Coverage Ceases 	<p>Active employees and retirees charged the same rate. Retiree pays 100% of this blended premium.</p> <p>Coverage ceases upon the earlier of death or attainment of Medicare eligibility.</p>	<p>Employee pays 100% of blended spousal premium.</p> <p>Spouse coverage ceases upon earlier of retiree death or Medicare eligibility. Surviving spouses are offered COBRA to age 65.</p>
Disability Coverage	No post-retirement disability insurance is valued.	Not applicable.
Long Term Care Coverage	No post-retirement long term care insurance is valued.	Not applicable.

Amendments

The Employer reserves the right to amend the Plan at any time subject to Board action.

Commonwealth of Virginia

The Commonwealth of Virginia reimburses Public Service Authority retirees' an amount equal to \$1.50 times their years of service up to 30 years. This credit has no effect on the Employer's medical contribution or OPEB obligation.

Employees covered by benefit terms. At July 1, 2023 (the valuation date) the following employees were covered by the benefit terms:

	<u>Count</u>	<u>Total OPEB Liability</u>
Inactive employees or beneficiaries currently receiving benefits	0	\$ -
Active employees	<u>60</u>	<u>209,832</u>
Total	<u>60</u>	<u>\$ 209,832</u>

Employer Contributions

The funding policy of the plan sponsor is to make a regular contribution of \$13,000.

Employee Contributions

Retirees must pay the cost-sharing portion of the premium in order to receive coverage.

Net OPEB Liability

The employer's net OPEB liability is reported herein as of June 30, 2024 for the employer fiscal year and reporting period of July 1, 2023 to June 30, 2024. The values shown for this fiscal year and reporting period are based on a measurement date of July 1, 2023 and the corresponding measurement period of July 1, 2022 to July 1, 2023 for GASB 75 and a measurement date of June 30, 2024 and the corresponding measurement period of July 1, 2023 to June 30, 2024 for GASB 74. The measurement of the total OPEB liability is based on a valuation date of July 1, 2022.

Actuarial Assumptions and Actuarial Methods

The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Discount Rate	7.50%
Salary Scale	2.50%
Healthcare Cost Trend Rates	6.50% for fiscal year end 2024, decreasing 0.25% per year to an ultimate rate of 5.00%
Mortality	RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2021
Actuarial Cost Method	Entry Age Actuarial Cost Method

Expected Return on Assets

7.50%

Discount Rate

- The discount rate for GASB 75 and GASB 74 has been set equal to 7.50% which is the rate of return on assets.

Changes in the Net OPEB Liability

		<u>Increase (Decrease)</u>	
	<u>Total</u> <u>OPEB Retiree HI</u> <u>Liability</u> <u>(a)</u>	<u>Plan</u> <u>Fiduciary</u> <u>Net Position</u> <u>(b)</u>	<u>Net</u> <u>OPEB Retiree HI</u> <u>Liability (Asset)</u> <u>(a) - (b)</u>
Balances at July 1, 2023	\$ 239,035	\$ 258,713	\$ (19,678)
Changes for the Year			
Service cost	3,380	-	3,380
Interest	16,363	-	16,363
Differences between expected and actual experience	(19,843)	-	(19,843)
Contributions - employer*	-	13,000	(13,000)
Contributions - employee	-	-	-
Net investment income	-	21,268	(21,268)
Benefit payments**	-	-	-
Changes of benefit terms	-	-	-
Administrative expense	-	(812)	812
Other changes	(14,109)	-	(14,109)
Net Changes	(14,209)	33,456	(47,665)
Balances at June 30, 2024***	<u>\$ 224,826</u>	<u>\$ 292,169</u>	<u>\$ (67,343)</u>

* This is contribution plus "Pay-as-you-go" Cost

** This is the "pay-as-you-go" Cost

*** Measurement date is July 1, 2023

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the Net OPEB liability/(asset) of the employer as of the measurement date calculated using the discount rate, as well as what the employer's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1.00%</u> <u>Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1.00%</u> <u>Increase</u>
Employer's Net OPEB Retiree Health Insurance Liability/(Asset)	\$ (48,263)	\$ (67,343)	\$ (84,427)

Sensitivity of the net OPEB liability to changes in the trend rate

The following presents the Net OPEB liability/(asset) of the employer as of the measurement date calculated using the trend rate, as well as what the employer's net OPEB liability would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1.00%</u> <u>Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1.00%</u> <u>Increase</u>
Employer's Net OPEB Retiree Health Insurance Liability/(Asset)	\$ (87,420)	\$ (67,343)	\$ (44,744)

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

For the year ended June 30, 2024, under GASB 75 the employer OPEB expense is \$(50,423). The deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2024 from various sources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,853	\$ 62,638
Changes of assumptions	8,293	24,236
Net difference between projected and actual earnings on OPEB plan investments	7,938	-
Employer contributions after measurement date but prior to fiscal year end	<u>13,000</u>	<u>-</u>
Total	<u>\$ 39,084</u>	<u>\$ 86,874</u>

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

<u>Year Ended June 30,</u>	
2025	\$ (24,128)
2026	(27,966)
2027	(3,911)
2028	(4,785)
Thereafter	-

19 Aggregate OPEB Information

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net OPEB Liability (Asset)</u>	<u>OPEB Expense</u>
VRS OPEB Plans				
Group Life Insurance	\$ 39,689	\$ 25,620	\$ 147,036	\$ 6,667
Health Insurance Credit	29,571	6,745	104,832	12,505
Retiree Health Insurance	<u>39,084</u>	<u>86,874</u>	<u>(67,343)</u>	<u>(50,423)</u>
Totals	<u>\$ 108,344</u>	<u>\$ 119,239</u>	<u>\$ 184,525</u>	<u>\$ (31,251)</u>

20 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 Virginia Risk Sharing Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual

premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit or depletion of all available excess insurance, the pool may assist all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The settled claims for 2024 and 2023 did not exceed insurance.

21 Water and Sewer Purchases

In 1974, the Authority and neighboring City of Martinsville, Virginia (the "City") signed a service agreement in which the Authority would purchase water and sewage treatment from the City and share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

22 Restatement of Net Position

Balance, June 30, 2022	\$72,862,115
Adjustment for CCAT Lease Activity:	
Difference in amortization expense (prior years)	\$ (6,635)
Interest Payable (\$44,800 x 2 years)	<u>89,600</u>
	<u>82,965</u>
Restated Balance, June 30, 2022	<u>\$72,945,080</u>

23 Upcoming Pronouncements

GASB Statement No. 102, *Certain Risk Disclosures* – The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

24 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2024 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2024. Management has performed their analysis through October 7, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's Net Pension Liability
and Related Ratios - VRS Pension

For the Plan Years Ended June 30 (in thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability										
Service cost	\$ 208,139	\$ 179,761	\$ 204,725	\$ 205,356	\$ 196,211	\$ 197,922	\$ 214,217	\$ 207,152	\$ 197,594	\$ 199,863
Interest	1,042,225	1,003,663	936,629	893,426	849,523	815,669	785,488	761,707	687,221	656,584
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Difference between expected and actual experience	6,599	67,978	(116,997)	167,301	256,321	14,798	123,682	(130,672)	589,016	-
Changes of assumptions	-	-	470,238	-	397,152	-	(136,024)	-	-	-
Benefit payments	(652,641)	(764,331)	(598,191)	(653,896)	(544,698)	(544,822)	(567,590)	(429,348)	(390,123)	(447,437)
Refunds of contributions	-	-	-	-	-	-	-	-	-	-
Net change in total pension liability	604,322	487,071	896,404	612,187	1,154,509	483,567	419,773	408,839	1,083,708	409,010
Total pension liability - beginning	15,558,557	15,071,486	14,175,082	13,562,895	12,408,386	11,924,819	11,505,046	11,096,207	10,012,499	9,603,489
Total pension liability - ending (a)	\$ 16,162,879	\$ 15,558,557	\$ 15,071,486	\$ 14,175,082	\$ 13,562,895	\$ 12,408,386	\$ 11,924,819	\$ 11,505,046	\$ 11,096,207	\$ 10,012,499
Plan fiduciary net position										
Contributions - employer	\$ 204,789	\$ 210,646	\$ 196,606	\$ 149,778	\$ 148,530	\$ 156,364	\$ 154,971	\$ 157,317	\$ 152,017	\$ 138,474
Contributions - employee	133,384	126,887	117,517	119,685	116,690	116,593	112,606	111,309	119,286	108,301
Net investment income	941,976	(16,416)	3,294,547	232,981	777,995	826,617	1,238,906	177,159	454,864	1,374,762
Benefit payments	(652,641)	(764,331)	(598,191)	(653,896)	(544,698)	(544,822)	(567,590)	(429,348)	(390,123)	(447,437)
Administrator charges	(9,443)	(9,435)	(8,251)	(8,114)	(7,805)	(7,231)	(7,292)	(6,411)	(6,254)	(7,503)
Other	378	344	310	(273)	(490)	(731)	(1,098)	(75)	(94)	72
Net change in plan fiduciary net position	618,443	(452,305)	3,002,538	(159,839)	490,222	546,790	930,503	9,951	329,696	1,166,669
Plan fiduciary net position - beginning	14,659,411	15,111,716	12,109,178	12,269,017	11,778,795	11,232,005	10,301,502	10,291,551	9,961,855	8,795,186
Plan fiduciary net position - ending (b)	\$ 15,277,854	\$ 14,659,411	\$ 15,111,716	\$ 12,109,178	\$ 12,269,017	\$ 11,778,795	\$ 11,232,005	\$ 10,301,502	\$ 10,291,551	\$ 9,961,855
Political subdivision's net pension liability (asset) - ending (a-b)	\$ 885,025	\$ 899,146	\$ (40,230)	\$ 2,065,904	\$ 1,293,878	\$ 629,591	\$ 692,814	\$ 1,203,544	\$ 804,656	\$ 50,644
Plan fiduciary net position as a percentage of the total pension liability	94.52%	94.22%	100.27%	85.43%	90.46%	94.93%	94.19%	89.54%	92.75%	99.49%
Covered payroll	\$ 2,888,190	\$ 2,711,473	\$ 2,486,456	\$ 2,531,827	\$ 2,434,388	\$ 2,329,670	\$ 2,287,191	\$ 2,252,132	\$ 2,161,601	\$ 2,047,723
Political subdivision's net pension liability as a percentage of covered payroll	30.64%	33.16%	-1.62%	81.60%	53.15%	27.02%	30.29%	53.44%	37.23%	2.47%

Henry County Public Service Authority

Schedule of Employer Contributions

Political Subdivisions Retirement Plan

For the Years Ended June 30, 2015 through 2024

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)*	Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)		
2024	\$ 251,451	\$ 251,451	\$ -	\$ 3,162,910	7.95%
2023	229,609	229,609	-	2,888,190	7.95%
2022	228,847	228,847	-	2,711,473	8.44%
2021	209,857	209,857	-	2,486,456	8.44%
2020	162,290	162,290	-	2,531,827	6.41%
2019	156,044	156,044	-	2,434,388	6.41%
2018	161,212	161,212	-	2,329,670	6.92%
2017	158,274	158,274	-	2,287,191	6.92%
2016	159,224	159,224	-	2,252,132	7.07%
2015	152,161	152,161	-	2,161,601	7.04%

* Includes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer's covered payroll.

Column 2 – Employer contributions as referenced in Covered Payroll & Contributions report on VRS website.

Column 4 – Employer's covered payroll amount for the fiscal year.

Henry County Public Service Authority

Notes to Required Supplementary Information – VRS Pension

For the Year Ended June 30, 2024

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, 2022 valuation were based on the results of an actuarial study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Henry County Public Service Authority

Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Program

For the Measurement Dates of June 30, 2017 through 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.012260%	0.012470%	0.012040%	0.012330%	0.012440%	0.012270%	0.012400%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 147,036	\$ 150,151	\$ 140,178	\$ 205,768	\$ 202,432	\$ 186,000	\$ 187,000
Employer's Covered Payroll	\$ 2,888,190	\$ 2,711,473	\$ 2,486,456	\$ 2,536,972	\$ 2,439,558	\$ 2,329,670	\$ 2,287,191
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	5.091%	5.538%	5.638%	8.111%	8.298%	7.984%	8.176%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	69.30%	67.21%	67.45%	52.64%	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2023 is the seventh year of presentation, only seven years of data are available. However, additional years will be included as they become available.

For Reference Only

The Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability for the VRS Group Life Insurance Program for each year is presented on pages 130 and 131 of the VRS 2023 Annual Report.

Henry County Public Service Authority

Schedule of Employer Contributions

Group Life Insurance OPEB Plan

For the Years Ended June 30, 2015 through 2024

Date	Contributions in Relation to			Contributions as a % of	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Covered Payroll (5)
2024	\$ 17,252	\$ 17,252	\$ -	\$ 3,194,944	0.54%
2023	15,596	15,596	-	2,888,190	0.54%
2022	14,642	14,642	-	2,711,473	0.54%
2021	13,440	13,440	-	2,486,456	0.54%
2020	13,176	13,176	-	2,536,972	0.52%
2019	12,686	12,686	-	2,439,558	0.52%
2018	12,131	12,131	-	2,329,670	0.52%
2017	11,893	11,893	-	2,287,191	0.52%
2016	10,845	10,845	-	2,259,406	0.48%
2015	10,398	10,398	-	2,166,326	0.48%

For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll.

Column 2 - Employer contributions as referenced in Covered Payroll & Contributions report on VRS website.

Column 4 - Employer's covered payroll amount for the fiscal year.

Henry County Public Service Authority

Notes to Required Supplementary Information – GLI OPEB

For the Year Ended June 30, 2024

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, 2022 valuation were based on the results of an actuarial study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's Net HIC OPEB Liability
and Related Ratios

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total HIC OPEB liability							
Service cost	\$ 1,325	\$ 1,345	\$ 1,976	\$ 1,994	\$ 1,879	\$ 1,908	\$ 2,173
Interest	10,946	9,975	9,926	9,762	8,981	8,854	9,009
Changes in benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	2,044	(6,886)	(4,683)	1,008	12,212	874	-
Changes of assumptions	-	19,773	2,125	-	3,549	-	(5,144)
Benefit payments	(9,543)	(10,053)	(9,868)	(10,795)	(9,816)	(9,827)	(6,653)
Net change in total HIC OPEB liability	4,772	14,154	(524)	1,969	16,805	1,809	(615)
Total HIC OPEB liability - beginning	165,616	151,462	151,986	150,017	133,212	131,403	132,018
Total HIC OPEB liability - ending (a)	\$ 170,388	\$ 165,616	\$ 151,462	\$ 151,986	\$ 150,017	\$ 133,212	\$ 131,403
Plan fiduciary net position							
Contributions - employer	\$ 10,398	\$ 9,762	\$ 8,951	\$ 8,355	\$ 8,033	\$ 7,222	\$ 7,090
Net investment income	3,664	59	12,398	979	3,005	3,325	4,912
Benefit payments	(9,543)	(10,053)	(9,868)	(10,795)	(9,816)	(9,827)	(6,653)
Administrator charges	(87)	(106)	(146)	(91)	(65)	(76)	(80)
Other	106	1,977	-	-	(3)	(246)	246
Net change in plan fiduciary net position	4,538	1,639	11,335	(1,552)	1,154	398	5,515
Plan fiduciary net position - beginning	61,018	59,379	48,044	49,596	48,442	48,040	42,525
Plan fiduciary net position - ending (b)	\$ 65,556	\$ 61,018	\$ 59,379	\$ 48,044	\$ 49,596	\$ 48,438	\$ 48,040
Political subdivision's net HIC OPEB liability - ending (a) - (b)	\$ 104,832	\$ 104,598	\$ 92,083	\$ 103,942	\$ 100,421	\$ 84,774	\$ 83,363
Plan fiduciary net position as a percentage of the total HIC OPEB liability	38.47%	36.84%	39.20%	31.61%	33.06%	36.36%	36.56%
Covered payroll	\$ 2,888,190	\$ 2,711,473	\$ 2,486,456	\$ 2,531,827	\$ 2,439,558	\$ 2,329,670	\$ 2,287,191
Political subdivision's net HIC OPEB liability as a percentage of covered payroll	3.63%	3.86%	3.70%	4.11%	4.12%	3.64%	3.64%

Schedule is intended to show information for 10 years.
Since 2023 is the seventh year of presentation, only seven years of data are available. However, additional years will be included as they become available.

Henry County Public Service Authority

Schedule of Employer Contributions

Health Insurance Credit - Political Subdivisions

For the Years Ended June 30, 2015 through 2024

Date	Contractually Required Contribution (1)	Contribution in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2024	\$ 11,386	\$ 11,386	\$ -	\$ 3,162,910	0.36%
2023	10,398	10,398	-	2,888,190	0.36%
2022	9,762	9,762	-	2,711,473	0.36%
2021	8,951	8,951	-	2,486,456	0.36%
2020	8,355	8,355	-	2,531,827	0.33%
2019	8,033	8,033	-	2,439,558	0.33%
2018	7,222	7,222	-	2,329,670	0.31%
2017	7,090	7,090	-	2,287,191	0.31%
2016	6,756	6,756	-	2,252,132	0.30%
2015	6,485	6,485	-	2,161,710	0.30%

For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll.

Column 2 - Employer contributions as referenced in Covered Payroll & Contributions report on VRS website.

Column 4 - Employer's covered payroll amount for the fiscal year.

Henry County Public Service Authority

Notes to Required Supplementary Information – HIC OPEB

For the Year Ended June 30, 2024

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, 2022 valuation were based on the results of an actuarial study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's
Net OPEB Liability - Retiree Health Insurance
and Related Ratios

Last 10 Fiscal Years (as information becomes available)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability							
Service cost	\$ 3,380	\$ 7,020	\$ 7,034	\$ 5,526	\$ 4,768	\$ 13,667	\$ 13,334
Interest	16,363	20,952	19,951	16,747	16,656	15,290	14,774
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(19,843)	(66,858)	(23,541)	27,449	(954)	(79,795)	-
Changes in assumptions	(14,109)	-	-	169	16,276	(132,712)	-
Benefit Payments	-	-	-	(7,741)	(15,069)	(14,987)	(12,948)
Other	-	(25,454)	11,394	-	-	-	-
Net change in total OPEB liability	(14,209)	(64,340)	14,838	42,150	21,677	(198,537)	15,160
Total OPEB liability - beginning	239,035	303,375	288,537	246,387	224,710	423,247	408,087
Total OPEB liability - ending (a)	\$ 224,826	\$ 239,035	\$ 303,375	\$ 288,537	\$ 246,387	\$ 224,710	\$ 423,247
Plan fiduciary net position							
Contributions - employer	\$ 13,000	\$ 13,000	\$ 13,000	\$ 20,741	\$ 28,069	\$ 27,987	\$ 25,948
Contributions - employee	-	-	-	-	-	-	-
Net investment income	21,268	(26,424)	61,163	5,122	8,200	12,879	15,136
Benefit Payments	-	-	-	(7,741)	(15,069)	(14,987)	(12,948)
Administrative expenses	(812)	(796)	(728)	(706)	(678)	(655)	(636)
Other	-	-	-	-	-	-	-
Net change in plan fiduciary net position	33,456	(14,220)	73,435	17,416	20,522	25,224	27,500
Plan fiduciary net position - beginning	258,713	272,933	199,498	182,082	161,560	136,336	108,836
Plan fiduciary net position - ending (b)	\$ 292,169	\$ 258,713	\$ 272,933	\$ 199,498	\$ 182,082	\$ 161,560	\$ 136,336
Employer's net OPEB liability (asset) - ending (a) - (b)	\$ (67,343)	\$ (19,678)	\$ 30,442	\$ 89,039	\$ 64,305	\$ 63,150	\$ 286,911
Plan fiduciary net position as a percentage of the total OPEB liability	129.95%	108.23%	89.97%	69.14%	73.90%	71.90%	32.21%
Covered employee-payroll	\$ 2,956,502	\$ 2,956,502	\$ 2,431,642	\$ 2,431,642	\$ 2,351,060	\$ 2,351,060	\$ 2,222,703
Employer's net OPEB liability as a percentage of covered employee-payroll	-2.28%	-0.67%	1.25%	3.66%	2.74%	2.69%	12.91%

Henry County Public Service Authority

Schedule of Employer Contributions - OPEB Retiree Health Insurance

For the Years Ended June 30, 2015 through 2024

Date	Actuarially Determined Contribution (1)	Contributions in Relation to Actuarially Determined Contribution (2)	Contribution Deficiency (Excess) (3)	Expected Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2024	\$ -	\$ 13,000	\$ (13,000)	\$ 2,956,502	0.44%
2023	-	13,000	(13,000)	2,956,502	0.44%
2022	-	13,000	(13,000)	2,431,642	0.53%
2021	7,741	20,741	(13,000)	2,431,642	0.85%
2020	15,069	28,069	(13,000)	2,351,060	1.19%
2019	14,987	27,987	(13,000)	2,351,060	1.19%
2018	12,948	12,948	-	2,222,703	0.58%
2017	N/A	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A

Notes

The expected benefit payments are actuarially determined to reflect the age difference between the overall covered group and the retiree group.

Actuarially determined contributions, which are based on the "pay-as-you-go" cost, and actual contributions are from the measurement periods ending June 30 of the year prior to the year-end of the reporting periods shown.

OTHER INFORMATION

Table 1

Henry County Public Service Authority

Revenues by Source

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Investment Earnings</u>	<u>Grants and Other Contributions</u>	<u>Connection Fees</u>	<u>Totals</u>
2024	\$ 7,297,567	\$ 5,125,468	\$ 441,290	\$ 1,037,135	\$ 180,992	\$ 218,643	\$ 14,301,095
2023	7,260,915	4,936,801	444,057	605,983	721,967	149,885	14,119,608
2022	7,192,958	4,906,378	458,811	86,869	640,821	94,450	13,380,287
2021	7,146,344	5,201,246	618,422	105,891	439,496	66,400	13,577,799
2020	6,985,664	5,201,786	897,385	351,975	126,564	30,900	13,594,274
2019	7,122,340	5,475,014	894,662	499,195	355,750	49,700	14,396,661
2018	7,092,814	4,972,918	822,748	378,726	677,358	68,000	14,012,564
2017	7,103,980	5,095,250	790,811	340,012	896,386	46,292	14,272,731
2016	7,001,004	5,193,665	837,617	393,482	1,075,869	109,850	14,611,487
2015	6,933,471	4,830,544	863,771	379,498	173,085	57,950	13,238,319

Table 2

Expenses by Function

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>System Maintenance</u>	<u>Treatment</u>	<u>Engineering and Mapping</u>	<u>Administration and Other</u>	<u>Depreciation</u>	<u>Amortization and Interest</u>	<u>Totals</u>
2024	\$ 1,784,650	\$ 5,217,943	\$ 433,817	\$ 2,778,255	\$ 3,816,288	\$ 808,938	\$ 14,839,891
2023	1,667,481	4,537,240	427,670	2,612,340	3,619,875	803,141	13,667,747
2022	1,485,396	4,150,289	450,036	2,277,201	3,582,198	640,276	12,585,396
2021	1,688,840	4,025,710	422,002	2,351,214	3,365,372	632,066	12,485,204
2020	1,567,689	3,907,038	387,529	2,142,358	3,237,823	567,891	11,810,328
2019	1,504,439	3,853,792	348,134	2,139,593	3,284,794	597,572	11,728,324
2018	1,697,202	3,071,162	321,179	3,238,496	3,218,463	676,436	12,222,938
2017	1,439,404	3,114,831	362,299	2,183,031	3,131,080	833,701	11,064,346
2016	1,336,527	3,491,294	323,939	2,107,370	3,085,840	1,016,061	11,361,031
2015	1,206,781	3,183,910	289,375	2,072,224	3,073,959	1,128,956	10,955,205

Henry County Public Service Authority

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Unrestricted Cash Beginning of Year</u>	<u>Gross Revenues</u>	<u>Direct Operating Expenses**</u>	<u>Net Available</u>	<u>Principal***</u>	<u>Interest</u>	<u>Total Debt</u>	<u>Coverage</u>
2024	\$ 22,832,518	\$ 14,120,103	\$ 10,214,665	\$ 26,737,956	\$ 1,473,935	\$ 646,175	\$ 2,120,110	12.61
2023	21,816,758	13,397,641	9,244,731	25,969,668	1,174,883	587,390	1,762,273	14.74
2022	20,073,132	12,739,466	8,362,922	24,449,676	1,145,122	522,060	1,667,182	14.67
2021	17,096,441	13,138,303	8,487,766	21,746,978	842,828	632,066	1,474,894	14.74
2020	13,931,734	13,467,710	8,004,614	19,394,830	4,064,022	567,891	4,631,913	4.19
2019	11,540,550	14,040,911	7,845,958	17,735,503	3,873,197	597,572	4,470,769	3.97
2018	9,143,032	13,335,206	7,216,760	15,261,478	3,684,256	677,694	4,361,950	3.50
2017	8,544,150	13,376,344	7,099,565	14,820,929	3,383,019	832,952	4,215,971	3.52
2016	7,159,883	13,535,618	7,259,130	13,436,371	3,138,527	955,079	4,093,606	3.28
2015	6,344,143	13,065,234	6,752,290	12,657,087	2,960,185	1,128,206	4,088,391	3.10

**Excluding depreciation, interest, and amortization.

***Excludes debt refinancing payoffs.

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2024

<u>Type Coverage</u> <u>(Insurer)</u>	<u>Liability Limits</u>	
Commercial General Liability (Virginia Risk Sharing Association)	\$ 1,000,000	Per Occurrence
	1,000,000	Fire Damage Limit, Any One Fire
	-	Medical Payment Per Person
	10,000	No Fault Property Damage Per Occurrence
Primary Automobile Liability (Virginia Risk Sharing Association)	\$ 1,000,000	Per Occurrence
	10,000	Medical Payment Per Person
	10,000	No Fault Coverage Per Occurrence
Automobile Uninsured Motorists (Virginia Risk Sharing Association)	\$ 30,000	Bodily Injury Per Person
	60,000	Bodily Injury Per Accident
	20,000	Property Damage Per Accident
Automobile Physical Damage (Virginia Risk Sharing Association)	Actual	Comprehensive
	Actual	Collision
	\$ 250	Deductible/Comprehensive
	500	Deductible/Collision
Excess Liability Coverage (Virginia Risk Sharing Association)	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Risk Sharing Association)	\$70,420,525	Blanket Real and Personal Property
	100,000	Accounts Receivable
	1,000,000	Extra Expense
	100,000	Business Interruption - Property
	500,000	Debris Removal
	1,000	Deductible
	50,000,000	Flood (Zones B, C, & X only)
	50,000,000	Earthquake
	25,000	Deductible
Boiler and Machinery Coverage (Virginia Risk Sharing Association)	\$50,000,000	Direct Damage (Per Accident)
	100,000	CFC
	100,000	Consequential and Ammonia
	100,000	Expediting Expenses
	100,000	Hazardous Substances
	100,000	Water Damage
	100,000	Computer Data & Media
	250,000	Perishable Goods
	1,000,000	Demolition & ICC
	1,000,000	Newly Acquired Location
	1,000	Deductible
Crime Coverage (Virginia Risk Sharing Association)	\$ 25,000	Computer Fraud
	1,000,000	Public Employees Dishonesty
	1,000,000	Forgery or Alteration
	1,000,000	Theft, Disappearance, and Destruction
	1,000,000	Money & Counterfeit Papers
	5,000	Deductible
Worker's Compensation (Virginia Risk Sharing Self-Insurance Association)	Statutory	State Statutory Provision
	\$ 1,000,000	Employer's Liability Limit
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000,000	Limit of Liability
	1,000	Deductible

Table 5**Henry County Public Service Authority****Raw Water Production by Source (In Million Gallons)**

Last Ten Fiscal Years

Fiscal Years Ended June 30	<u>City of Martinsville</u>	<u>Philpott</u>	<u>Wells</u>	<u>Totals</u>
2024	3	1,152	2	1,157
2023	2	1,098	2	1,102
2022	2	1,074	3	1,079
2021	5	1,126	3	1,134
2020	6	1,183	3	1,192
2019	7	1,195	3	1,205
2018	6	1,122	3	1,131
2017	6	1,069	4	1,079
2016	9	1,032	9	1,050
2015	10	1,022	10	1,042

Source: Reports prepared by the Authority and submitted to the Virginia Department of Health.

Table 6**Waste Water Treatment By Plant
(In Million Gallons)**

Last Ten Fiscal Years

Fiscal Years Ended June 30	<u>City of Martinsville</u>	<u>Lower Smith River</u>	<u>Totals</u>
2024	856	-	856
2023	810	-	810
2022	762	-	762
2021	1,066	-	1,066
2020	917	-	917
2019	903	-	903
2018	696	-	696
2017	767	-	767
2016	854	-	854
2015	651	-	651

Note: Does not include waste treatment in lagoon systems.

Source: Flow Reports

Table 7

Henry County Public Service Authority

Demographic Statistics

Last Ten Fiscal Years

Fiscal Years Ended June 30	Population (1)	Per Capita Income (2)	Median Age (3)	Unemployment Rate (4)
2024	48,568	47,455	48.3	3.7%
2023	48,835	46,758	48.0	3.5%
2022	50,000	43,380	48.1	3.2%
2021	51,450	40,545	47.6	5.4%
2020	51,019	39,367	47.2	9.3%
2019	51,438	37,827	46.8	3.6%
2018	51,975	35,899	46.2	3.9%
2017	52,352	34,968	46.0	5.1%
2016	52,822	33,439	45.5	5.7%
2015	53,273	32,546	45.0	7.3%

Sources:

- 1) U. S. Census, 2020; other figures are annually adjusted estimates prepared by the University of Virginia Weldon Cooper Center for Public Service.
- 2) Bureau of Economic Analysis. Figures are for Martinsville and Henry County combined; Henry County only figures not available; information based on latest available data.
- 3) U. S. Census Bureau.
- 4) Virginia Labor Market Information.

Henry County Public Service Authority

List of Ten Largest Customers

Year Ended June 30, 2024

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
Crown Cork and Seal, Inc.	Manufacturing	\$ 437,157	3.52%
Monogram Snack Martinsville, LLC	Manufacturing	405,014	3.26%
C.P. Films, Inc.- Eastman	Manufacturing	317,626	2.56%
Henry County Schools	Public School System	147,668	1.19%
King's Grant	Retirement Community	140,057	1.13%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	126,326	1.02%
County of Henry, Virginia	Local Government	96,372	0.78%
L.I.C. Associates	Rental Properties	87,037	0.70%
Press Glass, Inc.	Manufacturing	76,023	0.61%
CAH Properties	Rental Properties	<u>72,617</u>	<u>0.58%</u>
Total		<u>\$ 1,063,726</u>	<u>8.56%</u>
*Total Billings		<u>\$ 12,423,035</u>	

Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2024

Type of Entity	Independent authority created pursuant to the Virginia Water and Sewer Authorities Act, Section 15.2-5100, Code of Virginia (1950), as amended.	
Date of Incorporation	1965	
Selected Information	Number of Employees	62
	Number of Active Water Connections	12,318
	Number of Active Sewer Connections	6,969
	Miles of Water Lines	385
	Miles of Sewer Lines	244
	Number of Fire Hydrants	1,746
	Water Treatment Plant Capacity	6 MGD
	City of Martinsville, Virginia Purchased Water Capacity	2 MGD
	Sewer Treatment Plant Capacity	6 MGD
	City of Martinsville Purchased Sewer Capacity	4 MGD
	Average Daily Water Consumption	3.17 MGD
	Average Daily Sewage Flow	2.35 MGD
Bond Rating	Not rated	
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	Residential customers charged a minimum monthly consumption charge of \$30 per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of \$45 per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of \$68.50 per service for up to 6,000 gallons consumption.	
Additional Consumption	The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums: Residential customers - \$4.70 per additional 1,000 gallons. Non-Residential customers - \$7 per additional 1,000 gallons. Institutional customers - \$8.10 per additional 1,000 gallons.	
Exceptions	The Authority reserves the right to negotiate contracts for service charges with industrial users.	

COMPLIANCE



**INDEPENDENT AUDITOR'S 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
Henry County Public Service Authority

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 and fiduciary fund of Henry County Public Service Authority, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Henry County Public Service Authority's basic financial statements, and have issued our report thereon dated October 7, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Henry County Public 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henry County Public Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Henry County Public 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.

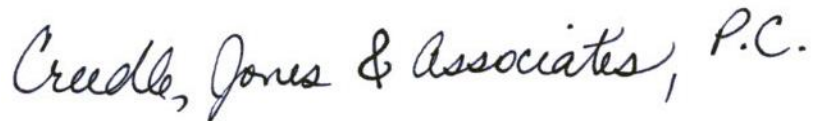
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County Public 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.

A handwritten signature in black ink that reads "Creedle, Jones & Associates, P.C." in a cursive script.

Creedle, Jones & Associates, P.C.
Certified Public Accountants

South Hill, Virginia
October 7, 2024