

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

**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2024**

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**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2024**

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HALIFAX COUNTY SERVICE AUTHORITY

MEMBERS

LaTonya Hamilton, Chairman

Hope Harris-Gayles, Vice-Chairman

Kathy Bane

Daniel Lloyd

Ken Buckley

Tim Davis

George Leonard

OFFICIALS

Mark Estes, Executive Director

- Financial Section –



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the 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 financial position of the business-type activities of Halifax County Service Authority, as of June 30, 2024, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Halifax County 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 opinion.

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 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.

Auditors' 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 auditors' report that includes our opinion. 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, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions* 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, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, 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 Halifax County 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 Halifax County 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 as listed in the table of contents 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.

Report on Summarized Comparative Information

We have previously audited Halifax County Service Authority's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 24, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does 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 February 24, 2026, on our consideration of Halifax County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Halifax County Service Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Halifax County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

February 24, 2026

As management of Halifax County Service Authority ("HCSA" or "the Authority"), we offer readers of our financial statements this narrative, overview, and analysis of the financial activities of the Authority for the year ended June 30, 2024.

Overview of the Financial Statements

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

Enterprise fund financial statements

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

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

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 16 through 45 of this report.

Required Supplementary Information

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

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,400,370 (net position). Of this amount, \$1,780,565 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

Financial Analysis

Net investment in capital assets

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

Restricted net position

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

Unrestricted net position

Unrestricted net position is used by the Authority to finance day-to-day operations without restrictions established by debt covenants or other requirements. Unrestricted cash and investments consist of government securities, bank deposits, and other cash-equivalents. At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net position.

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

	Net Position	
	2024	2023
Current and other assets	\$ 8,512,175	\$ 6,087,868
Capital assets	<u>35,093,438</u>	<u>36,292,173</u>
Total assets	<u>\$ 43,605,613</u>	<u>\$ 42,380,041</u>
Deferred outflows of resources	\$ <u>161,984</u>	\$ <u>253,546</u>
Long-term liabilities	\$ 12,475,989	\$ 13,227,186
Other liabilities	<u>4,522,037</u>	<u>1,634,326</u>
Total liabilities	<u>\$ 16,998,026</u>	<u>\$ 14,861,512</u>
Deferred inflows of resources	\$ <u>369,201</u>	\$ <u>445,061</u>
Net position:		
Net investment in capital assets	\$ 22,080,244	\$ 22,661,875
Restricted	2,539,561	1,511,090
Unrestricted	<u>1,780,565</u>	<u>3,154,049</u>
Total net position	<u>\$ 26,400,370</u>	<u>\$ 27,327,014</u>

Financial Analysis: (Continued)

Changes in Revenues, Expenses, and Net Position

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

	Change in Net Position	
	2024	2023
Revenues:		
Operating revenues	\$ 6,139,356	\$ 6,336,645
Other nonoperating revenue	37,520	44,611
Investment income	<u>167,607</u>	<u>12,452</u>
Total revenues	<u>\$ 6,344,483</u>	<u>\$ 6,393,708</u>
Expenses:		
Operating expenses (excluding depreciation)	\$ 4,986,821	\$ 4,659,765
Depreciation expense	1,899,617	2,148,912
Interest expense	<u>384,689</u>	<u>314,753</u>
Total expenses	<u>\$ 7,271,127</u>	<u>\$ 7,123,430</u>
Increase (decrease) in net position	\$ (926,644)	\$ (729,722)
Net position-beginning	<u>27,327,014</u>	<u>28,056,736</u>
Net position-ending	<u><u>\$ 26,400,370</u></u>	<u><u>\$ 27,327,014</u></u>

Operating and nonoperating revenues

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

Operating revenues decreased from 2023 to 2024 by \$197,289 due to a decrease in usage. Non operating revenues decreased because there was no contribution from participating governments during 2024.

Operating and nonoperating expenses

Operating expenses consist of personnel services, contractual services, materials and supplies, utilities, insurance, and other operating expenses that keep the Authority running on a day to day basis. Non-operating expenses consist of interest expense and other costs that are incurred that do not fall under operating expense. Operating expenses increased from 2023 to 2024 by \$327,056 7.02%.

Capital Assets

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

The following table summarizes the Authority's capital assets, net of accumulated depreciation as of June 30, 2024 and 2023.

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Capital assets not being depreciated		
Land	\$ 133,500	\$ 133,500
Construction in progress	655,740	116,780
Total capital assets not being depreciated	<u>\$ 789,240</u>	<u>\$ 250,280</u>
 Capital assets being depreciated		
Utility plant lines and accessories	\$ 66,369,575	\$ 66,369,575
Vehicles and equipment	1,811,274	1,649,352
Total assets being depreciated	<u>\$ 68,180,849</u>	<u>\$ 68,018,927</u>
 Less: Accumulated depreciation	<u>(33,876,651)</u>	<u>(31,977,034)</u>
 Capital assets being depreciated, net	<u>\$ 34,304,198</u>	<u>\$ 36,041,893</u>
 Net capital assets	<u><u>\$ 35,093,438</u></u>	<u><u>\$ 36,292,173</u></u>

Debt Administration

Long-term Obligations

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

At the end of the current fiscal year, the Authority had \$12,949,739 in bonds and notes outstanding. The Authority also had \$193,053 in compensated absences, and \$68,481 of a net OPEB liability.

Requests for Information

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

- Basic Financial Statements -

Statement of Net Position
As of June 30, 2024
(With Comparative Totals for 2023)

	As of June 30,			
	2024			2023
	Water	Sewer	Total	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,599,373	\$ -	\$ 3,599,373	\$ 3,281,432
Accounts receivable (net of allowance for uncollectible accounts)	100,669	151,004	251,673	309,690
Lease receivable, current portion	7,856	11,785	19,641	18,528
Inventory of materials and supplies, at cost	324,384	25,213	349,597	333,838
Prepaid items	10,906	16,358	27,264	-
Total current assets	\$ 4,043,188	\$ 204,360	\$ 4,247,548	\$ 3,943,488
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	\$ 1,106,810	\$ 1,660,215	\$ 2,767,025	\$ 1,698,602
Investments - certificate of deposit	-	1,033,811	1,033,811	-
Net pension asset	84,674	127,012	211,686	174,032
Total restricted assets	\$ 1,191,484	\$ 2,821,038	\$ 4,012,522	\$ 1,872,634
Lease receivable, net of current portion	\$ 100,842	\$ 151,263	\$ 252,105	\$ 271,746
Capital assets:				
Utility plant, lines, and accessories	\$ 22,240,124	\$ 44,129,451	\$ 66,369,575	\$ 66,369,575
Machinery and equipment	724,510	1,086,764	1,811,274	1,649,352
Accumulated depreciation	(16,070,607)	(17,806,044)	(33,876,651)	(31,977,034)
Sub-total net capital assets	\$ 6,894,027	\$ 27,410,171	\$ 34,304,198	\$ 36,041,893
Land	53,400	80,100	133,500	133,500
Construction in progress	-	655,740	655,740	116,780
Total net capital assets	\$ 6,947,427	\$ 28,146,011	\$ 35,093,438	\$ 36,292,173
Total noncurrent assets	\$ 8,239,753	\$ 31,118,312	\$ 39,358,065	\$ 38,436,553
Total assets	\$ 12,282,941	\$ 31,322,672	\$ 43,605,613	\$ 42,380,041
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ -	\$ 35,319	\$ 35,319	\$ 36,627
Pension related items	44,295	66,442	110,737	200,383
OPEB related items	6,371	9,557	15,928	16,536
Total deferred outflows of resources	\$ 50,666	\$ 111,318	\$ 161,984	\$ 253,546
LIABILITIES				
Current liabilities:				
Reconciled overdraft	\$ -	\$ 2,057,003	\$ 2,057,003	\$ 390,273
Payable on demand loan	-	1,000,000	1,000,000	-
Accounts payable	85,984	128,976	214,960	125,862
Accrued interest payable	-	75,640	75,640	33,741
Customers' deposits	237,382	201,768	439,150	361,544
Compensated absences - current portion	7,722	11,583	19,305	20,960
Bonds and notes payable - current portion	197,782	518,197	715,979	701,946
Total current liabilities	\$ 528,870	\$ 3,993,167	\$ 4,522,037	\$ 1,634,326
Noncurrent liabilities:				
Compensated absences - noncurrent portion	\$ 69,499	\$ 104,249	\$ 173,748	\$ 188,637
Net OPEB liabilities	27,392	41,089	68,481	73,570
Bonds and notes payable - noncurrent portion	1,936,789	10,296,971	12,233,760	12,964,979
Total noncurrent liabilities	\$ 2,033,680	\$ 10,442,309	\$ 12,475,989	\$ 13,227,186
Total liabilities	\$ 2,562,550	\$ 14,435,476	\$ 16,998,026	\$ 14,861,512
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 40,376	\$ 60,563	\$ 100,939	\$ 151,153
OPEB related items	6,328	9,493	15,821	17,776
Lease related items	100,976	151,465	252,441	276,132
Total deferred inflows of resources	\$ 147,680	\$ 221,521	\$ 369,201	\$ 445,061
NET POSITION				
Net investment in capital assets	\$ 4,812,856	\$ 17,267,388	\$ 22,080,244	\$ 22,661,875
Restricted for:				
Net pension asset	84,674	127,012	211,686	174,032
Bond covenants	869,428	1,458,447	2,327,875	1,337,058
Unrestricted (deficit)	3,856,419	(2,075,854)	1,780,565	3,154,049
Total net position	\$ 9,623,377	\$ 16,776,993	\$ 26,400,370	\$ 27,327,014

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

	For the Year Ended June 30,			
	2024			2023
	Water	Sewer	Total	Total
Operating revenues:				
Water and sewer charges	\$ 2,775,583	\$ 3,107,993	\$ 5,883,576	\$ 6,073,314
Facility fees	38,770	58,155	96,925	90,100
Other revenues	63,542	95,313	158,855	173,231
Total operating revenues	\$ 2,877,895	\$ 3,261,461	\$ 6,139,356	\$ 6,336,645
Operating expenses:				
Operations and maintenance	\$ 1,664,415	\$ 2,510,791	\$ 4,175,206	\$ 3,817,680
Administrative	324,646	486,969	811,615	842,085
Depreciation	591,571	1,308,046	1,899,617	2,148,912
Total operating expenses	\$ 2,580,632	\$ 4,305,806	\$ 6,886,438	\$ 6,808,677
Operating income (loss)	\$ 297,263	\$ (1,044,345)	\$ (747,082)	\$ (472,032)
Nonoperating revenues (expenses):				
Investment earnings	\$ 67,043	\$ 100,564	\$ 167,607	\$ 12,452
Tower rent	15,008	22,512	37,520	44,611
Interest expense	(78,838)	(305,851)	(384,689)	(314,753)
Total nonoperating revenues (expenses)	\$ 3,213	\$ (182,775)	\$ (179,562)	\$ (257,690)
Change in net position	\$ 300,476	\$ (1,227,120)	\$ (926,644)	\$ (729,722)
Net position, beginning of year	9,322,901	18,004,113	27,327,014	28,056,736
Net position, end of year	\$ 9,623,377	\$ 16,776,993	\$ 26,400,370	\$ 27,327,014

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

Statement of Cash Flows
For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

	For the Year Ended June 30,			
	2024			2023
	Water	Sewer	Total	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,978,708	\$ 3,296,271	\$ 6,274,979	\$ 6,210,605
Payments to suppliers and vendors	(1,170,801)	(394,393)	(1,565,194)	(3,106,296)
Payments to and on behalf of employees	(804,825)	(892,842)	(1,697,667)	(1,607,197)
Net cash provided by (used for) operating activities	\$ 1,003,082	\$ 2,009,036	\$ 3,012,118	\$ 1,497,112
Cash flows from capital and related financing activities:				
Additions to capital assets	\$ (64,769)	\$ (636,113)	\$ (700,882)	\$ (112,143)
Principal payments	(181,207)	(519,645)	(700,852)	(679,841)
Issuance of payable on demand note	-	1,000,000	1,000,000	-
Interest payments	(78,839)	(278,977)	(357,816)	(335,611)
Net cash provided by (used for) capital and related financing activities	\$ (324,815)	\$ (434,735)	\$ (759,550)	\$ (1,127,595)
Cash flows from investing activities:				
Interest received	\$ 67,043	\$ 66,753	\$ 133,796	\$ 12,452
Purchase of investments - certificate of deposit	-	(1,000,000)	(1,000,000)	-
Net cash provided by (used for) investing activities	\$ 67,043	\$ (933,247)	\$ (866,204)	\$ 12,452
Increase (decrease) in cash and cash equivalents	\$ 745,310	\$ 641,054	\$ 1,386,364	\$ 381,969
Cash and cash equivalents at beginning of year, including restricted cash	3,960,873	1,019,161	4,980,034	4,598,065
Cash and cash equivalents at end of year, including restricted cash	\$ 4,706,183	\$ 1,660,215	\$ 6,366,398	\$ 4,980,034
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 297,263	\$ (1,044,345)	\$ (747,082)	\$ (472,032)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	591,571	1,308,046	1,899,617	2,148,912
Tower rent	15,008	22,512	37,520	44,611
Changes in operating assets, liabilities, deferred inflows and outflows:				
(Increase) decrease in receivables	23,207	34,810	58,017	(67,603)
(Increase) decrease in inventory	(15,759)	-	(15,759)	(61,774)
(Increase) decrease in prepaid items	(10,906)	(16,358)	(27,264)	-
(Increase) decrease in net pension asset	(15,061)	(22,593)	(37,654)	138,091
(Increase) decrease in lease receivable	7,411	11,117	18,528	16,852
(Increase) decrease in deferred outflows of resources - pension	35,858	53,788	89,646	154,500
(Increase) decrease in deferred outflows of resources - OPEB	243	365	608	3,792
Increase (decrease) in reconciled overdraft	-	1,666,730	1,666,730	(67,112)
Increase (decrease) in payables	35,639	53,459	89,098	(61,017)
Increase (decrease) in customer deposits	77,606	-	77,606	(58,437)
Increase (decrease) in compensated absences	(6,618)	(9,926)	(16,544)	36,015
Increase (decrease) in net OPEB liabilities	(2,036)	(3,053)	(5,089)	1,735
Increase (decrease) in deferred inflows of resources - pension	(20,085)	(30,129)	(50,214)	(222,618)
Increase (decrease) in deferred inflows of resources - OPEB	(782)	(1,173)	(1,955)	(13,113)
Increase (decrease) in deferred inflows of resources - leases	(9,477)	(14,214)	(23,691)	(23,690)
Net cash provided by (used for) operating activities	\$ 1,003,082	\$ 2,009,036	\$ 3,012,118	\$ 1,497,112
Noncash investing, capital and financing activities:				
Unpaid capital asset additions	\$ -	\$ 132,585	\$ 132,585	\$ -

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024

Note 1 - Summary of Significant Accounting Policies:

A. Formation of the Authority:

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

B. Financial Reporting Entity:

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

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

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

C. Basis of Accounting:

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

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

C. Basis of Accounting: (Continued)

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

D. Basic Financial Statements:

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

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

- Management's Discussion and Analysis
- Enterprise fund financial statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Required Supplementary Information
 - Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
 - Schedule of Employer Contributions – Pension Plan
 - Notes to Required Supplementary Information – Pension Plan
 - Schedule of Changes in Total OPEB Liability and Related Ratios - Health Insurance Plan
 - Notes to Required Supplementary Information - Health Insurance Plan
 - Schedule of Authority's Share of Net OPEB Liability – Group Life Insurance (GLI) Plan
 - Schedule of Employer Contributions – Group Life Insurance (GLI) Plan
 - Notes to Required Supplementary Information – Group Life Insurance (GLI) Plan

E. Allowance for Doubtful Accounts:

Accounts receivable are stated at book value net of the allowance for uncollectible accounts. The allowance for uncollectible accounts amounted to \$272,521 at June 30, 2024.

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

F. Capital Assets:

Capital assets, are tangible and intangible assets, which include property, plant, equipment, and infrastructure assets (e.g., pipes, hydrants, pumps, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The capital assets donated to the Authority by the organizing localities were valued by a consulting engineer.

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

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

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

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

G. Interest on Indebtedness:

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

H. Cash and Cash Equivalents:

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

I. Investments:

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

J. Premiums/Discount on Bonds Held for Investment:

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

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

K. Unamortized Deferred Charge on Refunding:

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

L. Budgets and Budgetary Accounting:

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

M. Inventory:

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. Inventory was valued at \$349,597 at June 30, 2024.

N. Use of Estimates:

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

O. Net Position:

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net position is comprised of three components: net investment in capital assets, restricted and unrestricted

- Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories._

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

P. Net Position Flow Assumption:

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

Q. Deferred Outflows/Inflows of Resources:

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

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two types of items that qualify for reporting in this category. Certain items related to pension, OPEB, and leases are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

R. Long-term Obligations:

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

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

S. Compensated Absences:

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

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

T. Pensions:

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

U. Other Postemployment Benefits (OPEB):

Group Life Insurance

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

V. Leases

The authority leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessor

The Authority recognizes leases receivable and deferred inflows of resources. 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). Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Authority uses its estimated incremental borrowing rate as the discount rate for leases.

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

V. Leases: (Continued)

Key Estimates and Judgments: (Continued)

- The lease term includes the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease receivable.

The Authority monitors changes in circumstances that would require remeasurement or modification of its leases. The Authority will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Note 2 - Deposits and Investments:

Deposits:

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

Investments:

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 2 - Deposits and Investments: (Continued)

Custodial Credit Risk (Investments):

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

The Authority's investments at June 30, 2024 were held by the Authority or in the Authority's name by the Authority's custodial banks. The only investment of the Authority is a \$1M certificate of deposit which is held by the Authority as collateral for a loan.

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2024 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 133,500	\$ -	\$ -	\$ 133,500
Construction in progress	<u>116,780</u>	<u>538,960</u>	<u>-</u>	<u>655,740</u>
Total capital assets, not being depreciated	<u>\$ 250,280</u>	<u>\$ 538,960</u>	<u>\$ -</u>	<u>\$ 789,240</u>
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 66,369,575	\$ -	\$ -	\$ 66,369,575
Machinery and equipment	<u>1,649,352</u>	<u>161,922</u>	<u>-</u>	<u>1,811,274</u>
Total capital assets, being depreciated	<u>\$ 68,018,927</u>	<u>\$ 161,922</u>	<u>\$ -</u>	<u>\$ 68,180,849</u>
Accumulated depreciation:				
Utility plant, lines and accessories	\$ (30,752,488)	\$ (1,842,067)	\$ -	\$ (32,594,555)
Machinery and equipment	<u>(1,224,546)</u>	<u>(57,550)</u>	<u>-</u>	<u>(1,282,096)</u>
Total accumulated depreciation	<u>\$ (31,977,034)</u>	<u>\$ (1,899,617)</u>	<u>\$ -</u>	<u>\$ (33,876,651)</u>
Capital assets, being depreciated, net	<u>\$ 36,041,893</u>	<u>\$ (1,737,695)</u>	<u>\$ -</u>	<u>\$ 34,304,198</u>
Capital assets, net	<u><u>\$ 36,292,173</u></u>	<u><u>\$ (1,198,735)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 35,093,438</u></u>

Contractual Commitments

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Water Treatment Plant Expansion	\$ 527,100	\$ 947,900
Total	<u><u>\$ 527,100</u></u>	<u><u>\$ 947,900</u></u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 4 - Long-term Obligations:

Changes in long-term obligations for the year ended June 30, 2024 were as follows:

	<u>Beginning Balance</u>	<u>Issuances/ Additions</u>	<u>Retirements/ Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Direct borrowings and direct placements:					
Bonds payable	\$ 10,933,059	\$ -	\$ 456,825	\$ 10,476,234	\$ 439,339
Premium on bond issue	126,501	-	16,334	110,167	15,365
Notes payable	2,607,365	-	244,027	2,363,338	261,275
Total direct borrowings and direct placements	\$ 13,666,925	\$ -	\$ 717,186	\$ 12,949,739	\$ 715,979
Compensated absences*	209,597	-	16,544	193,053	19,305
Net OPEB liabilities	73,570	27,846	32,935	68,481	-
Total	\$ 13,950,092	\$ 27,846	\$ 766,665	\$ 13,211,273	\$ 735,284

*The change in compensated absences above is a net change for the year.

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

Year Ending June 30	Direct Borrowings and Direct Placements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2025	\$ 439,339	\$ 260,937	\$ 261,275	\$ 40,484
2026	469,974	247,298	1,920,728	18,503
2027	483,256	232,285	53,076	-
2028	387,434	218,918	53,076	-
2029	402,087	205,846	53,076	-
2030-2034	2,220,515	826,412	22,107	-
2035-2039	1,596,882	535,884	-	-
2040-2044	1,446,887	364,873	-	-
2045-2049	1,462,686	209,951	-	-
2050-2054	724,260	106,500	-	-
2055-2059	790,468	40,292	-	-
2060	52,446	186	-	-
Total	\$ 10,476,234	\$ 3,249,382	\$ 2,363,338	\$ 58,987

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 4 - Long-term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2024 were as follows:

	Total Amount	Amount Due Within One Year
Direct borrowings and direct placements:		
\$1,135,000 Series 2012A VRA Revenue Bond payable with principal due in annual installments ranging from \$25,000 to \$80,000 and interest payable semi-annually ranging from 3.52% to 5.12%, maturing October 1, 2037	\$ 800,000	\$ 40,000
Premium on Series 2012A VRA Refunding Bond	69,163	8,552
\$5,000,000 Series 2011B USDA Rural Development Revenue Bond issued December 20, 2011, with principal and interest due in monthly installments of \$16,350 with an interest rate of 2.25%, maturing in 2049	3,654,055	111,658
\$977,000 Series 2015A GO Refunding Bond with principal due in semi-annual installments ranging from \$7,000 to \$51,000 and interest payable semi-annually at 2.200% maturing 2027	306,000	100,000
\$2,205,000 Series 2013B VRA Revenue Bond payable with principal due in annual installments ranging from \$70,000 to \$165,000 and interest payable semi-annually ranging from 3.48% to 4.88%, maturing April 1, 2034	1,355,000	110,000
Premium on Series 2013B VRA Revenue Bond	41,004	6,813
\$4,600,000 Rural Development Loan issued in 2020 with interest only payments due in monthly installments for the first 24 months. Principal and interest due in monthly installments of \$13,846 beginning in 2022 with an interest rate of 2.00%, maturing in 2060.	4,361,179	77,681
Total Bonds Payable	\$ 10,586,401	\$ 454,704

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 4 - Long-term Obligations: (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Notes payable:		
Note payable to the Town of South Boston due in annual installments of \$53,076 with a final payment for the outstanding balance due February 1, 2028, interest at 0%	\$ 287,487	\$ 53,076
Note payable to Benchmark bank issued December 2020 for Smart Meter Loan project. Principal and interest due in monthly interest installments of \$16,077 with a final payment due December 2025, interest at 1.99%	1,982,060	155,453
Note payable to the Town of South Boston IDA issued April 2011 for the construction of the Authority's administrative building due in monthly installments of \$4,388 with a final payment due April 2026, interest at 3.71%	87,991	49,846
Note payable to the Town of South Boston IDA issued April 2011 for the land purchase for the Authority's administrative building due in annual installments of \$2,900 with a final payment due April 2026, interest at 0%	<u>5,800</u>	<u>2,900</u>
Total notes payable	\$ <u>2,363,338</u>	\$ <u>261,275</u>
Total direct borrowings and direct placements	\$ <u>12,949,739</u>	\$ <u>715,979</u>
Compensated absences	\$ <u>193,053</u>	\$ <u>19,305</u>
Net OPEB liabilities	\$ <u>68,481</u>	\$ <u>-</u>
Total Long-term Obligations	\$ <u><u>13,211,273</u></u>	\$ <u><u>735,284</u></u>

Line of Credit:

The Authority has a \$500,000 line of credit, which renews annually on January 2. The line of credit has a variable rate of interest. The Authority did not use the line of credit during fiscal year 2024.

Note 5 - Pension Plan:

Plan Description

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

Benefit Structures

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

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

Note 5 - Pension Plan: (Continued)

Average Final Compensation and Service Retirement Multiplier

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

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

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

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	17
Inactive members:	
Vested inactive members	2
Non-vested inactive members	10
Inactive members active elsewhere in VRS	1
Total inactive members	13
Active members	27
Total covered employees	57

Note 5 - Pension Plan: (Continued)

Contributions

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

The Authority’s contractually required employer contribution rate for the year ended June 30, 2024 was 8.08% 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 the Authority were \$97,185 and \$96,451 for the years ended June 30, 2024 and June 30, 2023, respectively.

Net Pension Asset

The net pension asset (NPA) is calculated separately for each employer and represents that particular employer’s total pension asset determined in accordance with GASB Statement No. 68, less that employer’s fiduciary net position. For Halifax County Service Authority, the net pension asset was measured as of June 30, 2023. The total pension liability used to calculate the net pension asset 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 Authority’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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 5 - Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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 Pub-2010 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 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

Note 5 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	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	1.00%	1.20%	0.01%
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 expected 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 return 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%.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 5 - Pension Plan: (Continued)

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; the Authority was also provided with an opportunity to use an alternative 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 Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2022	\$ 3,216,543	\$ 3,390,575	\$ (174,032)
Changes for the year:			
Service cost	\$ 139,533	\$ -	\$ 139,533
Interest	222,464	-	222,464
Differences between expected and actual experience	(21,519)	-	(21,519)
Contributions - employer	-	96,448	(96,448)
Contributions - employee	-	60,722	(60,722)
Net investment income	-	223,003	(223,003)
Benefit payments, including refunds of employee contributions	(120,640)	(120,640)	-
Administrative expenses	-	(2,132)	2,132
Other changes	-	91	(91)
Net changes	\$ 219,838	\$ 257,492	\$ (37,654)
Balances at June 30, 2023	\$ 3,436,381	\$ 3,648,067	\$ (211,686)

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 5 - Pension Plan: (Continued)***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Halifax County Service Authority			
Net Pension Liability (Asset)	\$ 223,981	\$ (211,686)	\$ (568,790)

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

For the year ended June 30, 2024, the Authority recognized pension expense of \$98,960. At June 30, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,499	\$ 49,118
Change of assumptions	9,053	-
Net difference between projected and actual earnings on pension plan investments	-	51,821
Employer contributions subsequent to the measurement date	97,185	-
Total	\$ 110,737	\$ 100,939

Note 5 - Pension Plan: (Continued)

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

\$97,185 reported as deferred outflows of resources related to pensions resulting from the Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year 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:

<u>Year ended June 30</u>		
2025	\$	(53,414)
2026		(81,930)
2027		46,552
2028		1,405
2029		-
Thereafter		-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also 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 <https://www.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.

Note 6 – Other Postemployment Benefits:

Health Insurance:

Plan Description

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

Benefits Provided

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

Benefits Provided: (Continued)

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

Plan Membership

At June 30, 2024, the following employees were covered by the benefit terms:

	<u>June 30, 2023</u>
Total active employees with coverage	21
Total retirees with coverage	<u>2</u>
Total	<u><u>23</u></u>

Contributions

The Authority does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Authority. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2024 was \$0.

Total OPEB Liability

The Authority’s total OPEB liability was measured as of June 30, 2024. The total OPEB liability was determined by an alternative measurement method as of January 7, 2026.

Actuarial Assumptions

The total OPEB liability in the June 30, 2024 calculation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.00%
Discount Rate	3.25%

Discount Rate

The discount rate used to determine the liabilities is based on the 20-year tax exempt municipal bond yield. This rate was 3.25% as of June 30, 2024.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

Changes in Total OPEB Liability

		Total OPEB Liability
Balances at June 30, 2023	\$	-
Changes for the year:		
Service cost	\$	-
Interest		-
Difference between expected and actual experience		-
Changes in assumptions		-
Contributions - employer		-
Net investment income		-
Benefit payments		-
Net changes		-
Balances at June 30, 2024	\$	-

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.25%) or 1 percentage point higher (4.25%) than the current discount rate:

		1% Decrease (2.25%)		Current Discount Rate (3.25%)		1% Increase (4.25%)
June 30, 2024	\$	-	\$	-	\$	-

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

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

		1% Decrease (4.80%), (10.70%), (2.50%), (2.00%)		Healthcare Cost Trend Rates* (5.80%), (11.70%), (3.50%), (3.00%)		1% Increase (6.80%), (12.70%), (4.50%), (4.00%)
June 30, 2024	\$	-	\$	-	\$	-

* Healthcare cost trend rates as of June 30, 2023 were: Medical - 5.80%, Pharmacy - 11.70%, Dental - 3.50%, Vision - 3.00%

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

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

For the year ended June 30, 2024, the Authority recognized OPEB expense in the amount of \$0. At June 30, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB of \$0.

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

Group Life Insurance (GLI) Plan (OPEB Plan)

Plan Description

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

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

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

Eligible Employees

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

Note 6 – Other Postemployment Benefits: (Continued)

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

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$9,254 as of June 30, 2024.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 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. Contributions to the Group Life Insurance Plan from the entity were \$7,223 and \$7,265 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. The entity's proportionate share is reflected in the financial statements.

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

At June 30, 2024, the entity reported a liability of \$68,481 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 GLI Plan 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 0.00571% as compared to 0.00610% at June 30, 2022.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

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

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

For the year ended June 30, 2024, the participating employer recognized GLI OPEB expense of \$1,365. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,840	\$ 2,079
Net difference between projected and actual earnings on GLI OPEB plan investments	-	2,752
Change in assumptions	1,464	4,745
Changes in proportionate share	401	6,245
Employer contributions subsequent to the measurement date	7,223	-
Total	<u>\$ 15,928</u>	<u>\$ 15,821</u>

\$7,223 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	\$ (1,856)
2026	(4,191)
2027	(44)
2028	(868)
2029	(157)
Thereafter	-

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

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

Actuarial Assumptions:

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 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. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

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

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
 As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

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

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 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 Pub-2010 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 GLI Plan represents the plan’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 GLI Plan are as follows (amounts expressed in thousands):

		GLI OPEB Plan
Total GLI OPEB Liability	\$	3,907,052
Plan Fiduciary Net Position		2,707,739
GLI Net OPEB Liability (Asset)	\$	1,199,313
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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

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

Long-Term Expected Rate of Return

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

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	1.00%	1.20%	0.01%
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 return 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%.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 6 – Other Postemployment Benefits: (Continued)

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that 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 ended 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 which was 113% 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 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:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Authority's proportionate share of the GLI Plan Net OPEB Liability	\$ 101,510	\$ 68,481	\$ 41,777

Group Life Insurance Plan Fiduciary Net Position

Detailed information about the GLI Plan'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 <http://www.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.

OPEB Aggregate Totals

2024	Halifax County Service Authority			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
VRS Group Life Insurance Plan	\$ 15,928	\$ 15,821	\$ 68,481	\$ 1,365
Authority's Stand-Alone Plan	-	-	-	-
Totals	\$ 15,928	\$ 15,821	\$ 68,481	\$ 1,365

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 7 - Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Virginia Risk Sharing Association (VRSA), a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers' compensation, general liability, automobile liability, property, crime and public officials' insurance coverages. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

Note 8 – Leases Receivable:

The Authority leases tower space to tenants under various lease contracts. In fiscal year 2024, the Authority recognized lease revenue and interest revenue in the amount of \$23,691 and \$5,574, respectively. A description of leases is as follows:

<u>Lease Description</u>	<u>Start Date</u>	<u>End Date</u>	<u>Payment Frequency</u>	<u>Discount Rate</u>	<u>Receivable Balance</u>
Tower lease	7/1/2021	12/31/2038	Monthly	1.99%	\$ 265,227
Tower lease	7/1/2021	5/31/2025	Monthly	1.99%	6,519
Total					<u>\$ 271,746</u>
		<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		2025	\$ 19,641	\$ 5,183	\$ 24,824
		2026	13,386	4,865	18,251
		2027	13,654	4,596	18,250
		2028	13,929	4,322	18,251
		2029	15,585	4,034	19,619
		2030-2034	91,569	14,946	106,515
		2035-2039	103,982	4,631	108,613
		Total	<u>\$ 271,746</u>	<u>\$ 42,577</u>	<u>\$ 314,323</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2024 (Continued)

Note 9 - Interim Loan for Leigh Street Water Plant Upgrade:

The Authority issued a 6-month note on October 4, 2023 for \$1,000,000 with a maturity date of April 4, 2024 to cover design and procurement of the Leigh Street Water Plant Upgrade. As part of the agreement, the Authority was required to maintain a certificate of deposit in the amount of \$1,000,000. The note was considered payable on demand for the next 6-month period from April 4, 2024 to October 4, 2024. On October 4, 2024 another agreement was reached with a maturity date of April 3, 2025. This second agreement still required the Authority to maintain a certificate of deposit in the amount of \$1,000,000. As of the date of the audit report, the note was still considered to be payable on demand.

The original engineer's estimate for the total project as described in the preliminary engineering report was \$17.1M with significant funding from the Virginia Department of Health.

Note 10 - Upcoming Pronouncements:

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

Statement No. 102, *Certain Risk Disclosures*, provides 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.

Statement No. 103, *Financial Reporting Model Improvements*, improves 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

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

- Required Supplementary Information -

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Net Pension (Asset) Liability and Related Ratios - Pension Plan For the Measurement Dates of June 30, 2014 through June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total pension liability					
Service cost	\$ 139,533	\$ 157,293	\$ 139,523	\$ 147,247	\$ 145,433
Interest	222,464	215,025	188,044	165,828	134,283
Differences between expected and actual experience	(21,519)	(78,238)	13,793	113,752	322,272
Changes of assumptions	-	-	55,082	-	74,454
Benefit payments	(120,640)	(211,596)	(96,444)	(98,965)	(177,131)
Net change in total pension liability	\$ 219,838	\$ 82,484	\$ 299,998	\$ 327,862	\$ 499,311
Total pension liability - beginning	3,216,543	3,134,059	2,834,061	2,506,199	2,006,888
Total pension liability - ending (a)	<u>\$ 3,436,381</u>	<u>\$ 3,216,543</u>	<u>\$ 3,134,059</u>	<u>\$ 2,834,061</u>	<u>\$ 2,506,199</u>
Plan fiduciary net position					
Contributions - employer	\$ 96,448	\$ 100,562	\$ 97,184	\$ 74,635	\$ 75,806
Contributions - employee	60,722	61,542	59,507	59,912	58,840
Net investment income	223,003	(4,031)	738,928	49,876	158,673
Benefit payments	(120,640)	(211,596)	(96,444)	(98,965)	(177,131)
Administrator charges	(2,132)	(2,164)	(1,730)	(1,613)	(1,611)
Other	91	80	71	(60)	(102)
Net change in plan fiduciary net position	\$ 257,492	\$ (55,607)	\$ 797,516	\$ 83,785	\$ 114,475
Plan fiduciary net position - beginning	3,390,575	3,446,182	2,648,666	2,564,881	2,450,406
Plan fiduciary net position - ending (b)	<u>\$ 3,648,067</u>	<u>\$ 3,390,575</u>	<u>\$ 3,446,182</u>	<u>\$ 2,648,666</u>	<u>\$ 2,564,881</u>
Authority's net pension (asset) liability - ending (a) - (b)	\$ (211,686)	\$ (174,032)	\$ (312,123)	\$ 185,395	\$ (58,682)
Plan fiduciary net position as a percentage of the total pension liability	106.16%	105.41%	109.96%	93.46%	102.34%
Covered payroll	\$ 1,315,611	\$ 1,328,505	\$ 1,273,413	\$ 1,278,618	\$ 1,247,317
Authority's net pension (asset) liability as a percentage of covered payroll	-16.09%	-13.10%	-24.51%	14.50%	-4.70%

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Net Pension (Asset) Liability and Related Ratios - Pension Plan For the Measurement Dates of June 30, 2014 through June 30, 2023

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

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions - Pension Plan For the Years Ended June 30, 2015 through June 30, 2024

Fiscal Year	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2024	\$ 97,185	\$ 97,185	\$ -	\$ 1,337,593	7.27%
2023	96,451	96,451	-	1,315,611	7.33%
2022	100,562	100,562	-	1,328,505	7.57%
2021	97,184	97,184	-	1,273,413	7.63%
2020	74,949	74,949	-	1,278,618	5.86%
2019	75,805	75,805	-	1,247,317	6.08%
2018	92,111	92,111	-	1,186,189	7.77%
2017	94,404	94,404	-	1,201,582	7.86%
2016	118,985	118,985	-	1,180,408	10.08%
2015	118,120	118,120	-	1,171,823	10.08%

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Required Supplementary Information - Pension Plan 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 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 Pub-2010 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 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

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Total OPEB Liability and Related Ratios - Health Insurance Plan For the Years Ended June 30, 2018 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 8,100	\$ 7,913	\$ 1
Interest	-	-	-	(2,846)	11,873	17,614	-
Changes in assumptions	-	-	-	-	94	14,774	92,627
Differences between expected and actual experience	-	-	-	228,298	(204,679)	(43,663)	356,955
Benefit payments	-	-	-	(262,786)	(224,275)	-	-
Net change in total OPEB liability	\$ -	\$ -	\$ -	\$ (37,334)	\$ (408,887)	\$ (3,362)	\$ 449,583
Total OPEB liability – beginning	-	-	-	37,334	446,221	449,583	-
Total OPEB liability – ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,334</u>	<u>\$ 446,221</u>	<u>\$ 449,583</u>
Covered payroll	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Authority's total OPEB liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Required Supplementary Information - Health Insurance Plan For the Year Ended June 2024

Calculation Date: January 7, 2026
Measurement Date: June 30, 2024

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry Age Normal cost method
Discount Rate	3.25%
Inflation	0%
Healthcare Trend Rate	Medical healthcare trend rate of 5.80%; Pharmacy healthcare trend rate of 11.70%; Dental healthcare trend rate of 3.50%; Vision healthcare trend rate of 3.00%
Salary Increase Rates	3.00%
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Authority's Share of Net OPEB Liability

Group Life Insurance (GLI) Plan

For the Measurement Dates of June 30, 2017 through June 30, 2023

Date (1)	Employer's Proportion of of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2023	0.00571% \$	68,481 \$	1,345,459	5.09%	69.30%
2022	0.00610%	73,570	1,328,505	5.54%	67.21%
2021	0.00611%	71,835	1,273,413	5.64%	67.45%
2020	0.00621%	103,635	1,278,618	8.11%	52.64%
2019	0.00636%	103,494	1,247,317	8.30%	52.00%
2018	0.00624%	94,000	1,186,189	7.92%	51.22%
2017	0.00651%	98,000	1,201,582	8.16%	48.86%

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

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions

Group Life Insurance (GLI) Plan

For the Years Ended June 30, 2017 through June 30, 2024

Date	Contributions in		Contribution	Employer's	Contributions
	Contractually	Relation to			
	Required	Contractually	Deficiency	Covered	as a % of
	Contribution	Required	(Excess)	Payroll	Covered
	(1)	(2)	(3)	(4)	(5)
2024	\$ 7,223	\$ 7,223	\$ -	\$ 1,337,593	0.54%
2023	7,265	7,265	-	1,345,459	0.54%
2022	7,174	7,174	-	1,328,505	0.54%
2021	6,876	6,876	-	1,273,413	0.54%
2020	6,649	6,649	-	1,278,618	0.52%
2019	6,486	6,486	-	1,247,317	0.52%
2018	6,168	6,168	-	1,186,189	0.52%
2017	6,248	6,248	-	1,201,582	0.52%

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

HALIFAX COUNTY SERVICE AUTHORITY

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

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 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

- Compliance Section -



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Halifax County Service Authority as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Halifax County Service Authority's basic financial statements and have issued our report thereon dated February 24, 2026.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Halifax County Service Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

February 24, 2026