HALIFAX COUNTY SERVICE AUTHORITY
SOUTH BOSTON, VIRGINIA

FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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HALIFAX COUNTY SERVICE AUTHORITY

MEMBERS

Dexter T. Gilliam, Chairman

Stewart Nelson, Vice-Chairman

Bill Snead | Joe Barkley

Katherine D.S. Bane | Gray Ramsey

Fields Thomas

OFFICIALS

Mark Estes, Executive Director

- Financial Section -

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Halifax County Service Authority, as of June 30, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 10 to the financial statements, in 2018, the Authority adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 10 to the financial statements, in 2018, the Authority restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Comparative Information

As described in Note 17 to the financial statements, GASB Statement No. 75 was implemented prospectively resulting in a restatement of beginning net position. In the year of implementation, comparative information for the net OPEB liability and related information as computed under GASB 75 standards was unavailable. Therefore, the 2017 amounts related to other postemployment benefits have not been restated to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding on pages 4-7, 58-60, and 61-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

Other Matters: (Continued)

Supplementary and Other Information: (Continued)

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2019, on our consideration of Halifax County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Halifax County Service Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Halifax County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 22, 2019

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

Overview of the Financial Statements

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

Enterprise fund financial statements

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

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

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

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 10 through 38 of this report. Note 5 presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $31,554,233 (net position). Of this amount, $4,444,548 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

Financial Analysis

Net investment in capital assets

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

Unrestricted net position

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

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

	Net Position		
	2018	2017	2016
Current and other assets	$ 6,168,955	$ 5,420,008	$ 5,671,086
Capital assets	39,091,060	38,818,639	40,706,405
Total assets	$ 45,260,015	$ 44,238,647	$ 46,377,491
Deferred outflows of resources	$ 201,571	$ 273,161	$ 265,786
Long-term liabilities	$ 11,728,431	$ 10,735,598	$ 11,653,528
Other liabilities	2,051,226	1,459,122	1,382,909
Total liabilities	$ 13,779,657	$ 12,194,720	$ 13,036,437
Deferred inflows of resources	$ 127,696	$ 18,575	$ 35,831
Net position:			
Net investment in capital assets	$ 27,109,685	$ 29,562,874	$ 31,099,854
Unrestricted	4,444,548	2,735,639	2,471,155
Total net position	$ 31,554,233	$ 32,298,513	$ 33,571,009

Financial Analysis: (Continued)

Changes in Revenues, Expenses, and Net Position

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

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

	Change in Net Position		
	2018	2017	2016
Revenues:			
Operating revenues	$ 5,121,638	$ 4,968,252	$ 4,820,824
Contribution from participating governments	122,013	126,488	125,834
Other nonoperating revenue	120,277	51,950	29,683
Investment income	23,206	11,128	6,468
Total revenues	$ 5,387,134	$ 5,157,818	$ 4,982,809
Expenses:			
Operating expenses (excluding depreciation)	$ 3,898,982	$ 4,053,803	$ 3,558,508
Depreciation expense	1,828,155	2,071,540	2,277,473
Interest expense	294,277	304,971	497,593
Total expenses	$ 6,021,414	$ 6,430,314	$ 6,333,574
Increase (decrease) in net position	$ (634,280)	$ (1,272,496)	$ (1,350,765)
Net position-beginning, as restated	32,188,513	33,571,009	34,921,774
Net position-ending	$ 31,554,233	$ 32,298,513	$ 33,571,009

Operating and nonoperating expenses

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

Capital Assets

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

The following table summarizes the Authority's capital assets, net of accumulated depreciation as of June 30, 2018, 2017 and 2016.

	June 30, 2018	June 30, 2017	June 30, 2016
Capital assets not being depreciated			
Land	$ 133,500	$ 133,500	$ 133,500
Construction in progress	2,435,825	501,327	413,333
Total capital assets not being depreciated	$ 2,569,325	$ 634,827	$ 546,833
Capital assets being depreciated			
Utility plant lines and accessories	$ 57,226,317	$ 57,128,764	$ 57,182,543
Vehicles and equipment	995,370	926,845	777,286
Total assets being depreciated	$ 58,221,687	$ 58,055,609	$ 57,959,829
Less: Accumulated depreciation	(21,699,952)	(19,871,797)	(17,800,257)
Capital assets being depreciated, net	$ 36,521,735	$ 38,183,812	$ 40,159,572
Net capital assets	$ 39,091,060	$ 38,818,639	$ 40,706,405

Debt Administration

Long-term Obligations

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

At the end of the current fiscal year, the Authority had $11,981,375 in bonds and notes outstanding. The Authority also had $162,651 in compensated absences and $547,583 of Net OPEB liabilities.

Requests for Information

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

- Basic Financial Statements -

Statements of Net Position
As of June 30, 2018 and 2017

	As of June 30,			
	2018			2017
ASSETS	Water	Sewer	Total	Total
Current assets:				
Cash and cash equivalents	$ 852,937	$ 1,279,408	$ 2,132,345	$ 1,333,558
Restricted cash and cash equivalents	311,808	1,908,022	2,219,830	2,486,564
Accounts receivable (net of allowance for uncollectible accounts)	314,247	471,367	785,614	762,330
Inventory of materials and supplies, at cost	156,621	16,982	173,603	156,654
Prepaid items	-	-	-	19,674
Total current assets	$ 1,635,613	$ 3,675,779	$ 5,311,392	$ 4,758,780
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents - deposits held	$ 152,181	$ 228,272	$ 380,453	$ 380,200
Net pension asset	$ 190,844	$ 286,266	$ 477,110	$ 281,028
Capital assets:				
Utility plant, lines, and accessories	$ 19,690,354	$ 37,535,963	$ 57,226,317	$ 57,128,764
Machinery and equipment	398,148	597,222	995,370	926,845
Accumulated depreciation	(11,693,628)	(10,006,324)	(21,699,952)	(19,871,797)
Sub-total net capital assets	$ 8,394,874	$ 28,126,861	$ 36,521,735	$ 38,183,812
Land	53,400	80,100	133,500	133,500
Construction in progress	-	2,435,825	2,435,825	501,327
Total net capital assets	$ 8,448,274	$ 30,642,786	$ 39,091,060	$ 38,818,639
Total noncurrent assets	$ 8,791,299	$ 31,157,324	$ 39,948,623	$ 39,479,867
Total assets	$ 10,426,912	$ 34,833,103	$ 45,260,015	$ 44,238,647
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	$ -	$ 56,729	$ 56,729	$ 61,428
Pension related items	55,470	83,204	138,674	211,733
OPEB related items	2,467	3,701	6,168	-
Total deferred outflows of resources	$ 57,937	$ 143,634	$ 201,571	$ 273,161
LIABILITIES				
Current liabilities:				
Accounts payable	$ 40,883	$ 679,820	$ 720,703	$ 164,974
Accrued interest payable	-	63,023	63,023	61,715
Customers' deposits	121,729	182,593	304,322	287,130
Compensated absences - current portion	6,506	9,759	16,265	16,422
Bonds and notes payable - current portion	38,468	908,445	946,913	928,881
Total current liabilities	$ 207,586	$ 1,843,640	$ 2,051,226	$ 1,459,122
Noncurrent liabilities:				
Compensated absences - noncurrent portion	$ 58,554	$ 87,832	$ 146,386	$ 147,794
Net OPEB liabilities	219,033	328,550	547,583	-
Bonds and notes payable - noncurrent portion	354,439	10,680,023	11,034,462	10,587,804
Total noncurrent liabilities	$ 632,026	$ 11,096,405	$ 11,728,431	$ 10,735,598
Total liabilities	$ 839,612	$ 12,940,045	$ 13,779,657	$ 12,194,720
DEFERRED INFLOWS OF RESOURCES				
Pension related items	$ 46,678	$ 70,018	$ 116,696	$ 18,575
OPEB related items	4,400	6,600	11,000	-
Total deferred inflows of resources	$ 51,078	$ 76,618	$ 127,696	$ 18,575
NET POSITION				
Net investment in capital assets	$ 8,055,367	$ 19,054,318	$ 27,109,685	$ 29,562,874
Unrestricted	1,538,792	2,905,756	4,444,548	2,735,639
Total net position	$ 9,594,159	$ 21,960,074	$ 31,554,233	$ 32,298,513
				18,575

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	For the Year Ended June 30,			
	2018			2017
	Water	Sewer	Total	Total
Operating revenues:				
Water and sewer charges	$ 2,037,710	$ 2,931,531	$ 4,969,241	$ 4,819,995
Facility fees	11,980	17,970	29,950	22,000
Other revenues	48,979	73,468	122,447	126,257
Total operating revenues	$ 2,098,669	$ 3,022,969	$ 5,121,638	$ 4,968,252
Operating expenses:				
Operations and maintenance	$ 1,433,569	$ 1,838,768	$ 3,272,337	$ 3,526,274
Administrative	250,658	375,987	626,645	527,529
Depreciation	746,307	1,081,848	1,828,155	2,071,540
Total operating expenses	$ 2,430,534	$ 3,296,603	$ 5,727,137	$ 6,125,343
Operating income (loss)	$ (331,865)	$ (273,634)	$ (605,499)	$ (1,157,091)
Nonoperating revenues (expenses):				
Investment earnings	$ 9,282	$ 13,924	$ 23,206	$ 11,128
Tower rent	8,111	12,166	20,277	21,950
Contribution from participating governments	48,805	73,208	122,013	126,488
Other nonoperating revenues	100,000	-	100,000	30,000
Interest expense	(5,115)	(289,162)	(294,277)	(304,971)
Total nonoperating revenues (expenses)	$ 161,083	$ (189,864)	$ (28,781)	$ (115,405)
Change in net position	$ (170,782)	$ (463,498)	$ (634,280)	$ (1,272,496)
Net position, beginning of year, as restated	9,764,941	22,423,572	32,188,513	33,571,009
Net position, end of year	$ 9,594,159	$ 21,960,074	$ 31,554,233	$ 32,298,513

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

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	For the Year Ended June 30,			
	2018			2017
	Water	**Sewer**	**Total**	Total
Cash flows from operating activities:				
Receipts from customers and users	$ 2,089,354	$ 3,009,000	$ 5,098,354	$ 4,947,456
Payments to suppliers and vendors	(824,562)	(678,440)	(1,503,002)	(2,553,275)
Payments to and on behalf of employees	(612,174)	(671,935)	(1,284,109)	(1,337,989)
Net cash provided by (used for) operating activities	$ 652,618	$ 1,658,625	$ 2,311,243	$ 1,056,192
Cash flows from noncapital financing activities:				
Contribution from participating governments	$ 48,805	$ 73,208	$ 122,013	$ 126,488
Net cash provided by (used for) noncapital financing activities	$ 48,805	$ 73,208	$ 122,013	$ 126,488
Cash flows from capital and related financing activities:				
Additions to capital assets	$ (52,434)	$ (2,048,142)	$ (2,100,576)	$ (183,774)
Principal payments	(38,337)	(858,900)	(897,237)	(872,589)
Proceeds from indebtedness	-	1,395,909	1,395,909	-
Interest payments	(5,115)	(317,137)	(322,252)	(345,424)
Net cash provided by (used for) capital and related financing activities	$ (95,886)	$ (1,828,270)	$ (1,924,156)	$ (1,401,787)
Cash flows from investing activities:				
Interest received	$ 9,282	$ 13,924	$ 23,206	$ 11,128
Net cash provided by (used for) investing activities	$ 9,282	$ 13,924	$ 23,206	$ 11,128
Increase (decrease) in cash and cash equivalents	$ 614,819	$ (82,513)	$ 532,306	$ (207,979)
Cash and cash equivalents at beginning of year, including restricted cash	702,107	3,498,215	4,200,322	4,408,301
Cash and cash equivalents at end of year, including restricted cash	$ 1,316,926	$ 3,415,702	$ 4,732,628	$ 4,200,322
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (331,865)	$ (273,634)	$ (605,499)	$ (1,157,091)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	746,307	1,081,848	1,828,155	2,071,540
Tower rent	8,111	12,166	20,277	21,950
Other nonoperating revenues	100,000	-	100,000	30,000
Changes in operating assets and liabilities:				
(Increase) decrease in receivables	(9,315)	(13,969)	(23,284)	(20,796)
(Increase) decrease in inventory	(16,638)	(311)	(16,949)	21,008
(Increase) decrease in prepaid items	7,870	11,804	19,674	(953)
(Increase) decrease in net pension asset	(78,433)	(117,649)	(196,082)	43,840
(Decrease) increase in net opeb liabilities	172,633	258,950	431,583	-
(Increase) decrease in deferred outflows of resources - pension	29,223	43,836	73,059	(12,073)
Increase (decrease) in deferred inflows of resources - pension	39,248	58,873	98,121	(17,256)
(Increase) decrease in deferred outflows of resources - OPEB	(67)	(101)	(168)	-
Increase (decrease) in deferred inflows of resources - OPEB	4,400	6,600	11,000	-
Increase (decrease) in customer deposits	6,877	10,315	17,192	34,577
Increase (decrease) in payables and accrued expenses	(25,107)	580,836	555,729	29,330
Increase (decrease) in compensated absences	(626)	(939)	(1,565)	12,116
Net cash provided by (used for) operating activities	$ 652,618	$ 1,658,625	$ 2,311,243	$ 1,056,192

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

Note 1 - Summary of Significant Accounting Policies:

A. Formation of the Authority:

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

B. Financial Reporting Entity:

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

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

Based on the above representations and in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14, Halifax County Service Authority has been determined to be a jointly governed organization of the County of Halifax, Town of South Boston and Town of Halifax. The Authority is not a component unit of any of the participating localities. There are no component units to be included within the Authority's financial statements.

C. Basis of Accounting:

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

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

C. Basis of Accounting: (Continued)

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

D. Allowance for Doubtful Accounts:

Accounts receivable are stated at book value net of the allowance for uncollectible accounts. The allowance for uncollectible accounts amounted to $159,529 and $152,461 at June 30, 2018 and 2017, respectively.

E. Basic Financial Statements:

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. As a result, the financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

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

-- Management's Discussion and Analysis

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

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

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

F. Capital Assets:

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current fiscal year.

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

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

G. Interest on Indebtedness:

Interest expense recognized from indebtedness used to construct new facilities is capitalized during the period of construction as part of the cost of such facilities. Other 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.

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

J. Premiums/Discount on Bonds Held for Investment:

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

K. Unamortized Deferred Charge on Refunding:

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

L. Budgets and Budgetary Accounting:

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

M. Inventory:

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. Inventory was valued at $173,603 and $156,654 at June 30, 2018 and 2017, respectively.

N. Use of Estimates:

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

O. Net Position:

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

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

P. Deferred Outflows/Inflows of Resources:

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

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

Q. 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.

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 liability, 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

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

Note 2 - Deposits and Investments:

Deposits:

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

Investments:

Statutes authorize the Authority 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 and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

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, 2018 were held by the Authority or in the Authority's name by the Authority's custodial banks.

Credit Risk of Debt Securities:

The Authority's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

	Fair Quality Ratings
	AAAm
State Non-Arbitrage Pool	$ 1,440,312

Interest Rate Risk:

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

Investment Maturities (in years)

Investment Type	Fair Value	1-5 Years
State Non-Arbitrage Pool	$ 1,440,312	$ 1,440,312

External Investment Pool:

The value of the positions in the external investment pool (State Non-Arbitrage Pool) is the same as the value of the pool shares. As SNAP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. SNAP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 133,500	$ -	$ -	$ 133,500
Construction in progress	501,327	1,934,498	-	2,435,825
Total capital assets, not being depreciated	$ 634,827	$ 1,934,498	$ -	$ 2,569,325
Capital assets, being depreciated:				
Utility plant, lines and accessories	$ 57,128,764	$ 97,553	$ -	$ 57,226,317
Machinery and equipment	926,845	68,525	-	995,370
Total capital assets, being depreciated	$ 58,055,609	$ 166,078	$ -	$ 58,221,687
Accumulated depreciation:				
Utility plant, lines and accessories	$ (19,241,819)	$ (1,776,837)	$ -	$ (21,018,656)
Machinery and equipment	(629,978)	(51,318)	-	(681,296)
Total accumulated depreciation	$ (19,871,797)	$ (1,828,155)	$ -	$ (21,699,952)
Total capital assets, being depreciated, net	$ 38,183,812	$ (1,662,077)	$ -	$ 36,521,735
Capital assets, net	$ 38,818,639	$ 272,421	$ -	$ 39,091,060

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 133,500	$ -	$ -	$ 133,500
Construction in progress	413,333	87,994	-	501,327
Total capital assets, not being depreciated	$ 546,833	$ 87,994	$ -	$ 634,827
Capital assets, being depreciated:				
Utility plant, lines and accessories	$ 57,128,764	$ -	$ -	$ 57,128,764
Machinery and equipment	831,065	95,780	-	926,845
Total capital assets, being depreciated	$ 57,959,829	$ 95,780	$ -	$ 58,055,609
Accumulated depreciation:				
Utility plant, lines and accessories	$ (17,220,863)	$ (2,020,956)	$ -	$ (19,241,819)
Machinery and equipment	(579,394)	(50,584)	-	(629,978)
Total accumulated depreciation	$ (17,800,257)	$ (2,071,540)	$ -	$ (19,871,797)
Total capital assets, being depreciated, net	$ 40,159,572	$ (1,975,760)	$ -	$ 38,183,812
Capital assets, net	$ 40,706,405	$ (1,887,766)	$ -	$ 38,818,639

Depreciation expense totaled $1,828,155 for 2018 and $2,071,540 for 2017.

Note 4 - Long-term Obligations:

Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 10,158,688	$ -	$ 801,393	$ 9,357,295	$ 820,008
Premium on bond issue	279,888	-	33,983	245,905	30,736
Notes payable	1,078,109	1,395,909	95,843	2,378,175	96,169
Total bonds and notes payable	$ 11,516,685	$ 1,395,909	$ 931,219	$ 11,981,375	$ 946,913
Compensated absences	164,216	-	1,565	162,651	16,265
Net OPEB liabilities	116,000	448,583	17,000	547,583	-
Total	$ 11,796,901	$ 1,844,492	$ 949,784	$ 12,691,609	$ 963,178

Changes in long-term obligations for the year ended June 30, 2017 are as follows:

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 10,937,988	$ -	$ 779,300	$ 10,158,688	$ 800,190
Premium on bond issue	317,111	-	37,223	279,888	33,983
Notes payable	1,171,398	-	93,289	1,078,109	94,708
Total bonds and notes payable	$ 12,426,497	$ -	$ 909,812	$ 11,516,685	$ 928,881
Compensated absences	152,100	12,116	-	164,216	16,422
Total	$ 12,578,597	$ 12,116	$ 909,812	$ 11,680,901	$ 945,303

Note 4 - Long-term Obligations: (Continued)

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

Year Ending June 30	Bonds Payable Principal	Bonds Payable Interest	Notes Payable Principal	Notes Payable Interest
2019	$ 820,008	$ 282,980	$ 96,169	$ 61,876
2020	842,282	257,144	97,686	60,359
2021	430,607	237,306	1,495,170	38,195
2022	449,985	221,261	100,893	7,737
2023	340,417	207,371	102,588	6,042
2024-2028	1,779,547	861,940	410,486	7,344
2029-2033	1,645,200	566,510	75,183	-
2034-2038	1,253,139	298,904	-	-
2039-2043	820,350	160,650	-	-
2044-2048	917,934	63,066	-	-
2049	57,826	496	-	-
Total	$ 9,357,295	$ 3,157,628	$ 2,378,175	$ 181,553

Details of the Authority's outstanding long-term indebtedness at June 30, 2017 are as follows:

Bonds payable:	Amount Due
$985,000 Series 2011B VRA Refunding Bond payable with principal due in annual installments ranging from $80,000 to $120,000 and interest payable semi-annually ranging from 2.12% to 5.12%, maturing October 1, 2021	$ 440,000
Premium on Series 2011B VRA Refunding Bond	24,224
$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	1,005,000
Premium on Series 2012A VRA Refunding Bond	128,717
$5,000,000 Series 2011B USDA Rural Development Revenue Bond issued December 20, 2011, payable through 2049	4,293,295

Note 4 - Long-term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2017: (Continued)

		Amount Due
Bonds payable: (Continued)		
$1,315,000 Series 2015C VRA GO Public Refund Bond with principal due in semi-annual installments ranging from $14,000 to $16,000 until 2018 when installments range from $203,000 to $209,000. Interest is payable semi-annually at 2.250% maturing 2020	$	848,000
$977,000 Series 2015A GO Refunding Bond with principal due in semi-annual installments ranging from $7,000 to $51,000 and interest payable semi-annually at 2.200% maturing 2027		861,000
$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		1,910,000
Premium on Series 2013B VRA Revenue Bond		92,964
Total Bonds Payable	$	9,603,200
Notes payable:		
Note payable to the Town of South Boston due in annual installments of $42,998 with a final payment for the outstanding balance due February 1, 2028, interest at 0%	$	605,943
Note payable to Benchmark bank issued January 2018 for temporary financing of infrastructure projects due in monthly interest installments of $4,118 with a final payment due January 2021, interest at 3.54%		1,395,909
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%		353,123
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%		23,200
Total Notes Payable	$	2,378,175
Compensated absences	$	162,651
Net OPEB liabilities	$	547,583
Total Long-term Obligations	$	12,691,609

Note 4 - Long-term Obligations: (Continued)

Line of Credit:

During fiscal year 2008, the Authority obtained a $500,000 line of credit for short-term operating needs. Interest on the line of credit is a variable rate of interest. Interest only payments are due quarterly and the entire principal was due January 2, 2013. The line of credit renews annually on January 2. The Authority did not use the line of credit during fiscal year 2018 or 2017.

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.

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>About Plan 1 (Cont.)</td><td>About Plan 2 (Cont.)</td><td>About the Hybrid Retirement Plan (Cont.)
• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td></tr>
<tr><td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

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

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</td><td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

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

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</td><td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• Political subdivision employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</td></tr>
</table>

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contribution Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age 60 with at least five years (60 months) of creditable service.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 5 - Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	6
Inactive members:	
Vested inactive members	1
Non-vested inactive members	3
Inactive members active elsewhere in VRS	1
Total inactive members	5
Active members	30
Total covered employees	41

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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required employer contribution rate for the year ended June 30, 2018 was 8.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 $92,111 and $94,404 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

Note 5 - Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Note 5 - Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

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

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

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

Note 5 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed 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.

Note 5 - Pension Plan: (Continued)

Changes in Net Pension Liability

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

Note 5 - Pension Plan: (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Authority using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	**(7.00%)**	**(8.00%)**
Appomattox River Water Authority			
Net Pension Liability (Asset)	$ (244,736)	$ (477,110)	$ (671,081)

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

For the year ended June 30, 2018, the Authority recognized pension expense of $67,205. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 46,563	$ 19,430
Change of assumptions	-	63,477
Net difference between projected and actual earnings on pension plan investments	-	33,787
Employer contributions subsequent to the measurement date	92,111	-
Total	$ 138,674	$ 116,694

Note 5 - Pension Plan: (Continued)

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

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

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

Note 6 – Other Postemployment Benefits:

Health Insurance:

The Authority implemented GASB Statement Number 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ending June 30, 2018. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Plan Description

In addition to the pension benefits described in Note 6, 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 plans. 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.

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, 2018 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	24
Total retirees with coverage	4
Total	28

Contributions

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

Net/Total OPEB Liability

The Authority’s total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	2.00%
Discount Rate	3.85%
Investment Rate of Return	N/A

Discount Rate

The discount rate used to determine the liabilities under GASB 75 is based on an index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. This rate was 3.85% as of June 30, 2018.

Note 6 - Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

Changes in Total OPEB Liability

Changes in Net OPEB Liability - Halifax County Service Authority

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

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.85%) or 1 percentage point higher (4.85%) than the current discount rate:

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

Note 6 – Other Postemployment Benefits: (Continued)

Health Insurance: (Continued)

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

The following presents the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (3.60%) or 1 percentage point higher (5.60%) than the current healthcare cost trend rates:

1% Decrease (3.60%)	Healthcare Cost Trend Rates (4.60%)	1% Increase (5.60%)
$ 408,270	$ 449,583	$ 499,727

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

For the year ended June 30, 2018, the Authority recognized OPEB expense in the amount of $449,583. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB of $0.

Additional disclosures on changes in net 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

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This 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 Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Plan Description: (Continued)

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City School Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in Benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 Program from the entity were $6,168 and $6,248 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the entity reported a liability of $98,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .00651% as compared to .00661% at June 30, 2016.

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

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

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

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	4,000
Change in assumptions	-	5,000
Employer contributions subsequent to the measurement date	6,168	-
Total	$ 6,168	$ 11,000

$6,168 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OEPB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ (2,000)
2020	(2,000)
2021	(2,000)
2022	(2,000)
2023	(1,000)
Thereafter	(2,000)

Note 6 – Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% – 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

Mortality Rates – General State Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – General State Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality Rates – Teachers

Pre-Retirement:
RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:
RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality Rates - SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality Rates - VaLORS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 6 – Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – VaLORS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality Rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

Note 6 – Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality Rates – Largest Ten Locality Employers – General Employees

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

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

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

Note 6 – Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Note 6 – Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	$	1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

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

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Note 6 - Other Postemployment Benefits: (Continued)

Group Life Insurance: (Continued)

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

The follow presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

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

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 7 - Risk Management:

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

Note 8 - Commitments and Contingencies:

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

Note 9 - Upcoming Pronouncements:

Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Note 9 - Upcoming Pronouncements: (Continued)

Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

Note 10 – Adoption of Accounting Principles:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Authority implemented Governmental Accounting Standards Board Statement No. 85, Omnibus 2017 during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these

Statements resulted in the following restatement of net position:

Net position at 6/30/17, as previously reported	$	32,298,513
Implementation of GASB 75		(110,000)
Net position at 6/30/17, as restated	$	32,188,513

- Required Supplementary Information -

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2018

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

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

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions - Pension
For the Years Ended June 30, 2009 through June 30, 2018

Fiscal Year	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Payroll (5)
2009	$ 92,511	$ 92,511	$ -	$ 1,058,481	8.74%
2010	91,554	91,554	-	1,047,527	8.74%
2011	134,457	134,457	-	1,055,395	12.74%
2012	136,215	136,215	-	1,069,194	12.74%
2013	151,915	151,915	-	1,154,372	13.16%
2014	148,684	148,684	-	1,129,817	13.16%
2015	118,120	118,120	-	1,171,823	10.08%
2016	118,985	118,985	-	1,180,408	10.08%
2017	94,404	94,404	-	1,201,582	7.86%
2018	92,111	92,111	-	1,186,189	7.77%

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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

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

HALIFAX COUNTY SERVICE AUTHORITY

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

		2018
Total OPEB liability		
Service cost	$	1
Interest		-
Changes in assumptions		92,627
Differences between expected and actual experience		356,955
Benefit payments		-
Net change in total OPEB liability	$	449,583
Total OPEB liability - beginning		-
Total OPEB liability - ending	$	449,583
Covered payroll	$	N/A
Authority's total OPEB liability (asset) as a percentage of covered payroll		N/A

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

Notes to Required Supplementary Information - OPEB - Health Insurance
For the Year Ended June 30, 2018

Valuation Date: June 30, 2018
Measurement Date: June 30, 2018

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	3.85%
Inflation	0%
Healthcare Trend Rate	Healthcare trend rate of 4.60%.
Salary Increase Rates	2.00%
Demographic Assumptions	Assumed that 100% of employees with medical coverage would elect to retain the coverage at retirement.

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Authority's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

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

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 Program
For the Years Ended June 30, 2017 through June 30, 2018

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

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

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

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

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

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

- 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, 2018, and the related notes to the financial statements, which collectively comprise Halifax County Service Authority's basic financial statements and have issued our report thereon dated August 22, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
August 22, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited the Halifax County Service Authority's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Halifax County Service Authority's major federal programs for the year ended June 30, 2018. Halifax County Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Halifax County Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 22, 2019

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture - Rural Utilities Service			
Direct Payments:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	$ 1,395,909
Total expenditures of federal awards			$ 1,395,909

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal award activity of the Halifax County Service Authority under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Halifax County Service Authority, it is not intended to and does not present the financial position, changes in net position,
or cash flows of the Halifax County Service Authority.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 3 - Indirect Cost Rate

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

Note 4 - Subrecepients

No awards were passed through to subrecipients.

Note 5 - Relationship to Financial Statements

Add: Temporary loan financing - anticipation of federal grant	$ 1,395,909
Total federal revenues per the basic financial statements	$ 1,395,909
Total federal expenditures per the Schedule of Expenditures of Federal Awards	$ 1,395,909

Note 6 - Loan Balances

The Authority has a temporary loan outstanding in anticipation of federal grant funding in the amount of $1,395,909.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

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

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

Section IV - Prior Year Federal Award Findings and Questioned Costs

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